REVERSE COUNCILS AND
OTHER "ORGANISED PLUNDERS"

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PREFACE.

Let it not be put down to sheer pedantry if I say that I am loyal to England no less because of King Shakespeare than of that sympathetic personality, King George. I am for a real and lasting partnership between India and England. It would be a great pity if any mishap should befall this old England, not merely of 'Angles' but of 'Angels'. Hence, she should adopt a more honest and a more enduring course. As for India—as Dr. Besant is always happy to say—this old and ancient land is, and will ever remain, young—provided Hinduism lives.

After the complete book was printed, I saw the inspired article in the *Economist* on "Indian Exchange". I may claim that the chapter on 'Currency and Exchange' in this book, gives a full reply to the *Economist*, as well as to Mr. F. V. Rushforth's book, that vast jargon on 'Balance of Remittances' and to Mr. H. S. Jevons' books of apologia for the Government. Happy Mr. Jevons! Government have paid him Rs. 7,500 for one of his books. But then, Government's subsidy might have been a forlorn

effort at replying to Mr. Bomanji's prize scheme.

I have scrupulously refrained from mentioning Mr. Montagu's name in the whole book. Now that he is no more, I feel I have been rather too hard on him in my previous book. After studying all the available literature on this subject, I find there are others more deeply dyed in the conspiracy. Poor man, after all, he gave us the Reforms. Some Englishmen, in their bitterness, blame him for this measure, and are ungrateful not to remember that he gained for England at least £ 500 millions.

In being able to write this book, I am very much indebted to the Indian Merchants' Chamber, Bombay, for their open correspondence and annual Reports, to 'Kristodas' and the Editorials of the *Bombay Chronicle*, to the commercial columns of the *Times of India* and to that high-class journal, the *Capital*. I am also very much beholden to the Y.M.I.A., one of Dr. Besant's splendid creations or benefactions.

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REVERSE COUNCILS AND OTHER "ORGANISED PLUNDERS"

INTRODUCTION

If the numerous companies and industries of the last three or four years, scotched very nearly at their birth, could only tell their tale, they would speak to the authors of the Reverse Councils policy of 1920, almost like the ghost of him whom 'King Richard III' had slain,

Letm e sit heavy on thy soul to-morrow,
Think, how thou stabb'dst me in my prime of youth
At Tewkesbury : Despair therefore, and die !

Nobody expects Indians to live like Methuselah or Dasaratha ; but surely, the victims of poverty, destitution and starvation as well as of preventible diseases çan likewise exclaim to

those responsible for the management* of Indian finances during the last few years,

Let me sit heavy on thy soul.

It might seem odd that anything should be written on this subject at this late hour, or that any one should dream of resuscitating this unfortunate controversy as if one has gone mad over it; especially, when there is too great eagerness on the part of all concerned to consider it as a completely closed topic—deeply buried and put out of men's thoughts, never to be exhumed and exposed to the vulgar gaze of the public. Certainly, no one should be willing to reawaken painful memories of an

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* An Ex-Lieutenant Governor—not of the Michael O'Dwyer type,—in an article on the Leper Problem in the *Asiatic Review*, January, 1924, writes " The answer is that India is a poor country and cannot afford the large expenditure which would be required for the provision of Asylums on a scale sufficient for the segregation of the entire leper population.

Power has been taken by law for the compulsory segregation of pauper lepers, but very little use has yet been made of it, as owing to the financial stringency which has prevailed since the Act in question was passed, it has not yet been found possible to proceed with the construction of the settlements needed for their confinement."

The Madras Mail, which takes a very keen and noble interest in the Leper Problem and which writes very often on this question says, " With every desire in the world to isolate these from the general population and to treat them with humane consideration, we are afraid that there are indications that the straitened financial situation in India generally will not permit of this being done on the scale which is essential if it is to be successful."

affair of which the men responsible seem only too heartily ashamed, with the exception of one individual, Mr. Cook or, as he now is, perversely enough created, Sir Edward Cook.

The poor Finance Member of 1922, a dupe and, perhaps, an unwilling tool (sic) of a conspiracy to defraud India, almost cried, 'Why bring in a topic as far back as 1920.' In that poor man's view, two years have become two centuries. Sir Basil Blackett who, like Lord Reading, has succumbed to the wiles of the incompetent but self-satisfied I.C.S. (*pace* their demand for an increase of salaries), in a recent speech in Bombay referred to the Reverse Councils transaction as an event of only historical importance. Have these three years been transmuted into three centuries or have we escaped out of the present cosmos and has our measurement of time, hence, been changed? Only the English nation reserve to themselves the sole right to observe or celebrate anything, whether it is the Pilgrim Fathers' Day or the latest, the Armistice Day of Nov. 11, for ever and ever. It might be asked what is it that India has to commemorate as a result of the war, to the successful prosecution of which she contributed in no small measure—not to

speak of an overworked phrase. Is there anything of which the rulers might be proud, except the ugly recollections and effects of two diabolical acts, one in 1919—now assuming added poignant pungency with Justice McCardie's hypocritical eulogium—the other, in 1920, both following in quick succession, the former affecting the honour of India, the latter her economic condition? And these two, our very unselfish and disinterested rulers would fain forget altogether and would have us do likewise.

I recur to this subject, not because it is a sort of King Charles' Head with me; but because I am more than ever convinced that the Reverse Councils transaction is the parent of all the financial ills that India has been afflicted with ever since 1920, and that the mentality that skilfully and cunningly worked up this scheme to smash India's financial strength and well-being has not been laid low, but is still going strong. It has even got its tentacles deep in every other financial question, military, currency and exchange, railways, stores, etc. The persistence of the India Council to survive like a cat's life and to stick on with the motto 'Reforms might come and Reforms might go,

but I go on for ever,' lends strong colour to this view. The evil spirit that took hold of our finances in 1920, has not proved a temporary thing nor has it been exorcised and driven out. On the other hand, it has pervaded every branch of the administration and has spread and taken a deep hold even in Provincial and Local Administrations, as in the results of the Lloyd and Lawless Hepper combination in Bombay. The doubling of the salt tax (the present decrease does not affect my view-point), the way in which all possible taxes have been levied upon the people, the remorselessness with which burdens have been heaped on the poor Indian taxpayer, the headlong manner in which India has been deliberately pushed into bankruptcy, everything shows, there has been some method in all this madness. Mr. Baldwin's honest dictum that the more a country is prosperous, the greater will it be a customer to England, is not meant perhaps to be applied to India. Some of our purblind and mole-eyed rulers, in their intense greed and selfishness, have no such belief in the fact that the more India is prosperous, the more valuable will she prove as a customer to England. Perhaps, the reverse holds sway in their minds, which, if true, might with all due

respect be termed almost cannibalistic. The wonder of it is, that England adopts a generous attitude and directs all her commiseration towards Germany and would even welcome her as a prosperous customer, but not, towards India, just as England would open Kenya and Tanganyika to the colonisation of her former enemies, the Germans or the Boers, though the latter's hatred towards Englishmen would flare up at the first opportunity—*vide* Lord Selborne's admission in the *Empire Review.*

Of those who are aghast at some of my strong remarks, it may be asked whether the country has seen such poverty, such utter dearth of money, such low purchasing power on the part of the people, even in the pre-war days, when our Note circulation was only 64 crores. What has become of all the additional wealth that must have poured into the country as a result of the war, and where has gone all the increase of wealth due to the huge balance of trade and the natural increase due to efflux of time? Has the country ever known such a large number of insolvencies, bankruptcies, such closing down of firms, manufactories and establishments? Has the country ever known so many auctions going on everywhere? The money market is ever

stringent; there is an utter paucity of money everywhere; and a very constriction in the circulation of money, in spite of the boasted 170 or 180 crores notes with their attendant rupee coins. But we know, everything will be attributed to trade depression and to world causes, according to our invertebrate Viceroy, Lord Reading.

Again, has the country ever known or seen such pauperism or beggary as in the present day or such a large unemployment problem? Everywhere we see people remaining houseless and we hear of many dying on pavements and thoroughfares owing to sheer starvation. These poor, destitute people are in all stages of misery, crippled, diseased or derelict human beings. Their condition is worse even than that of cattle and they seem to be mere chattels, not worth a minute's thought, either of the Government or of the well-to-do. The people, on the whole, have been rendered poorer than before, and their sufferings are really very acute. While a few wallow in luxury, to the vast majority, life is one of day to day struggle for bare maintenance. Even the vast mass of the middle classes are on the verge of penury; conditions of health and sanitation are no better; and

victims of disease are as numerous as ever. There is an infinite amount of suffering, all silently borne. Keen observers say, they have never seen such a large number of destitutes during the last 20, 30 years and this, in spite of the great Mercy of Influenza which checked the growth of population by 14 millions.

The expenditure of the country stands vastly increased, but very little of it has gone for the redress of poverty and relief from disease; and such increase of expenditure is going on in wasteful and unproductive channels and practically nothing towards the amelioration of the condition of the masses. Whereas in England, they boast of having spent £400 millions on war pensions, of having spent a like amount in the relief of the unemployed; while, all the time, serious and gigantic efforts are put forth by the various political parties for the revival and greater expansion of trade. They have even gone to the length of recognising Soviet Russia and helping down-trodden Germany to achieve their national urge. Look at the care with which England's statesmen and financiers scan the weekly trade and industrial reports! And what has our Government got to its credit here? Does the Government evince the least care

about the condition of our trade and industries, the least concern that cotton mills are closing down or that coal and iron and steel Companies are working at a loss or that there is a great depression and stagnation in trade? I write this in spite of the belated effort at protection to iron and steel. Has the Government shown the least anxiety to enquire what a large number of people are remaining unemployed or destitute, even in the low standard of living prevalent in India? There is very great distress throughout the country, both among the labouring classes as well as amongst brain workers. The Government of India remain supremely oblivious of the whole thing and, in a reply to a question in the Imperial Legislature, stated, they were not aware that there was great unemployment in the country. Not merely that, they have even sidetracked the demand for enquiry into the economic condition of the people and have appointed, in its stead, a committee to enquire into taxation, composed of effete personnel. For a seat on such a not-wanted committee, so-called eminent Indians are buzzing round. The problem of health and disease is viewed from the standpoint whether the post of Public Health Commissioner should

be left un-axed or not! While such hard facts and situations confront us, the very I.C.S. whose chiefs had so ably mismanaged the country's finances, are not ashamed to clamour for increase of salaries as if their need was the direst. Whatever it be, one thing is certain, some malignant being, driven by the motive power of jealousy and envy, has been hard at work, ever since January 1920. And all the sufferings of the people, whether of high taxation or low purchasing power, the increase of indebtedness of both merchants and agriculturists—not to speak of the extravagance of the Government and the vastly increased national debt—are distinctly traceable to that.

II

The outstanding fact of the situation is, India has been being treated more as an enemy country than as one who fought on the side of the Allies. Every one will have to admit that, after a close scrutiny of all the events that occurred after the armistice. It is, no doubt, a very unpleasant and bitter observation to make, but none the less, it is nothing but the bare and naked truth. The treatment of

Germany by France has not been worse than the treatment meted out to India after the stress and anxiety of the war was over. Barring the Reforms, every single act of the Government looks as though India was like Turkey, a faithful ally of Germany; and effective 'reparations, restitutions and guarantees' should be exacted from her. Reparations took the form of Reverse Councils and 7% loans; restitutions, in the shape of greater military expenditure, more contributions to the War Office, in stores, in capitation rates, etc., in the form of increase of salaries and that new and mean invention, proportionate pensions; and guarantees took the shape of Rowlatt Act, the Punjab episode and 20,000 political prisoners later on in the 'Justice' regime. It is a sight for the Gods to see or to adjudge. Why! as for the loss of territory, India is to lose like Germany and Turkey, and Indians are to be bundled out of not only Canada, Australia and S. Africa but also from Kenya and from German East Africa or Tanganyika as it is called.

To crown all, a new demand has been sprung upon India and that is, India should pay £40 millions to England as India's share in the

war-pensions expenditure incurred by England. The infamous nature of the demand has only to be mentioned to be realised. When, first, England put in £400 millions—her war-pensions expenditure—as a claim against Germany, the world was more or less aghast and shocked at, what may be called, England's greed and subterfuge and she was practically forced and shamed into dropping this claim unless it is to become a matter of international scandal. Even with Turkish capitulations, England and the Allies could not have their own way. And though she failed with Germany and Turkey, she has turned on India, her former enemy forsooth,—India, not the glorious dependency of Britain or equal partner in the British Commonwealth announced from Wembley and other places for eye-wash purposes—but India, one of England's enemies for all *practical* purposes, the late ally of Germany and Turkey and Austria-Hungary; why, it is but right that India should be made to pay her share in the war pensions. The other countries will not interfere in this matter as it is only a domestic question within the British Empire and it is not likely to assume international importanceor to be called inter-

national scandal, as in the case of Germany, and therein lies the safeguard with which the egregious War Office in London has been making demands upon demands on India, the latest being this £40 million exaction.

To put it in another way or to institute a parallel, it may be wondered at whether even General Von Mackensen planned his operations so thoroughly and effectively against Rumania so as to hem her in from all directions as the operations conducted against India, almost simultaneously by the War Office, India Council, Lombard Street and by the frightened sedition scaremongers in Simla and the Die-hards in London. The Rowlatt Act and the Punjab shame were like Mackensen's attack and sally in the Transylvanian hills and sector. And while the country was mustering all its feeble strength to ward off that ignominious attack, she was pounced upon in the opposite side with the Reverse Councils scheme and the Currency and Exchange legerdemain just as Mackensen captured the Danube region. To carry the comparison no further, the whole of India has been ravaged likewise economically, financially and politically from all sides, the climax reaching in the imprisonment of Mahatma Gandhi

and in the £40 million pensions demand and the Lee Commission.

On such occasions, the impotent Indian's plea has always been, 'England's honour is at stake.' As if England ever cared for her honour in her dealings with India or she had much honour to lose with regard to Indian financial affairs. Leave alone honour; at least, elemental gratitude should have dictated to England a quite different course. The late Sir William Meyer, one of the very few capable financiers the I.C.S. has produced, said, 'It was only through India's help that the whole of the operations of the Near East and Middle East was successfully conducted, as she poured her enormous supplies and that it was only through India that even the pegging of exchange in New York was possible.' He also affirmed that 'even the U.S.A.'s financial help to Britain was rendered easier because India was the pivot on which the whole financial policy of Britain revolved during the war.' All the various services of India were clean forgotten, her troops, her monetary contributions, her enormous raw materials. Instead, India became the pivot of England's after-war finance in another direction which will be

explained later on. That will also show how England or her mentors in India have ignored the caution or admonition which the late Sir William Hunter issued in the following words:—

> "I hope that this country will realise once and for all the poverty of the people from whom the Indian revenues are raised. When we have clearly recognised this, we shall see that the smallest act of financial sharp-dealing (mark the words) with India is an act not only of iniquity but of cruelty and meanness and one which carries with it lasting reproach."

> "If the British nation had realised the poverty of India, it would have refrained from several acts which now form standing reproaches against England in the Native Press. Fortunately for the national honour, the list of our injustices to India, although sufficiently painful to all who wish to see this country discharge its great duties in a noble spirit, is not a very long one. But under pressure of party exigencies and class interests in England, that list may at any moment be added to."

Unfortunately for India and for England, the list has grown too long, and has been added to, very much, much too much.

MYSTERY UNRAVELLED

There has been a good deal of mystery surrounding the whole Currency and Exchange policy which requires much unravelment, and the Government's persistent refusal to publish the correspondence from March 1919 to September 1920, a period of 18 months, between the India Office and the Government of India lends support to the general impression that there are certain dark corners which will not stand the full glare of publicity, some shady transactions or some ulterior motives which would perhaps bring down the honour of some. Whatever it be, to refuse to publish correspondence is not to inspire confidence in their integrity of purpose. Those who initiated this policy had in mind sure gains to England, as subsequent quotations would show, and even they will admit and will perhaps be "sniggering" that the results have exceeded their most sanguine expectations. The Reverse Councils policy imposed on India by the City of London

and its chief care-taker, the India Office, is not so innocent a venture as Mr. Hailey of 1920 sought to make out. Though his defence was lachrymose to the extreme, the following are the clues, which I have been at some pains to find out, that give away the whole show and afford unmistakable proofs that the policy was launched upon with the sole eye to English interests in England and in India.

Mr. T. M. Ainscough, Britain's Trade Commissioner in Calcutta, in his first report 'On the Conditions and Prospects of British Trade in India,' dated July 23rd, 1919, (mark the date) when the notorious Babington-Smith Committee was conspiring against India, wrote:

> "The future trend of exchange is likely to have a considerable influence on Japanese competition. The recent advance in the sterling rates of the rupee from 1sh. 4d. to 1sh. 8d. has given the imports from countries on a gold basis, such as the United Kingdom, America and Japan, an advantage of 20 per cent; that is to say, the prices of United Kingdom, America and Japanese goods expressed in rupees are reduced by 20 per cent. Theoretically, the exchange rates on Japan should follow those on London within very close limits. In practice,

however, though the T. T. rate on London has advanced approximately 25 per cent., the T. T. rate on Japan during the same period only shows an advance of, say, 17 per cent., taking the highest and lowest points reached. At present the T. T. rate on Japan shows an advance of only 14 per cent. compared with 25 per cent. on London. * * *

More important still, the high exchange operates in precisely the opposite way in the case of exports from India; that is to say, the prices of Indian produce as expressed in the gold currencies of overseas importing countries are raised by the same proportion. Now Japan imports 60 per cent. of the raw cotton used by her textile trades from India, so that the high prices expressed in gold yen, at which she will have to purchase her raw materials, must be reflected by enhanced rates for the manufactured piece-goods. On the whole, therefore, the rise in exchange should not only greatly benefit Lancashire by reducing piece-goods prices in India, but should improve her position *visa vis* Japan, the prices of whose goods will not be reduced in the same proportion." (Two birds at one stroke.) (Page 17).

"The recent rise in the sterling exchange is of

such importance to the import trade of the country that it may not be considered out of place briefly to refer to the causes underlying it and to the favourable effect which it is likely to have on United Kingdom trade with India. * * *

The effect of the rise in exchange from 1sh. 4d. to 1sh. 8d. (later on raised to unheard and undreamt of levels of 2sh. 4d. and 2sh. 11d.) is automatically. to reduce the local price of overseas imported goods, expressed in rupees, by 20 per cent. This has been a great stimulus to the import trade, particularly, in the case of cotton goods, where the discrepancy between Calcutta offers in rupees and Manchester quotations in sterling was frequently bridged by the exchange, and many orders were placed this spring which otherwise would not have gone through. High exchange also places the British maker in a more favourable position *visa vis* his competitor in India. On the whole, therefore, his material interests would appear to be best served by the fixation of exchange at *as high a rate* as may be possible in the circumstances." (Italics mine) (pages 20 and 21).

" There is every probability, therefore, of a steady

improvement in local conditions and very large purchases of Lancashire goods in the autumn. These will be considerably aided by the rise in exchange to 1sh. 8d., an advance of no less than 25 per cent. on normal rates, which is all in favour of the importer."

After writing and submitting to the Board of Trade in London, that able and patriotic report, Mr. Ainscough left Calcutta for London and, from September 1919 to March 1920, toured the whole of England, made a personal visit to all the industrial areas and urged on the manufacturers the need for dumping on India their goods at that most favourable opportunity—which would never recur even for a century unless an alchemist renders gold cheap—and to screw out the last benefit out of the high exchange then prevailing. What part he actually took in the moulding of the decisions of the Babington-Smith Committee or what effect his luminous and suggestive report had on that Committee, is not clear; that, we must leave the reader to guess or to judge. His visit to England and his beating-up and whipping-up the industrial areas coincided with the strange reasonings and stranger conclusions of the Currency Committee, and we may take it that the Department of

Overseas Trade to which office Mr. Ainscough belongs, would not have allowed the grass to grow under their feet, but might have confidentially implored the Currency Committee to have a thought for the suggestions made in his report. That was not improbable as England was casting about for all possible and impossible methods to recover her lost ground and to have a great expansion of her trade and industry. Whatever it be, Lancashire's interests could not have been forgotten by Sir Charles Needham, Mr. F. C. Goodenough whose Bank has a large stake in Lancashire, Sir Marshall Reid and Sir William B. Hunter, some of the members of the Currency Committee representing England's export trade to India.

The next clue is that given by Mr. Moreton Frewen after the holocaust of Reverse Councils affair was over. There was apparently great rejoicing in England, much ringing of bells and lighting of bonfires.

In a lecture on the *Problem of Exchange*, in March 1921, addressing the Empire Resources Committee at the House of Commons, Mr. Alfred Bigland presiding, Mr. Moreton Frewen drew attention to the figures given by the Secretary of State for India in his answer to

Mr. Arthur Samuel on March 2. Mr. Frewen said:

> "The figures, showed that India's net exports for 1919 were no less than 125 crores of rupees, which, at the 1919 average rates of exchange might be reckoned at 125 millions sterling. Deduct 30 millions sterling for "home charges" liquidated by the sale of Council Bills (33 crores) and there was owing to India fully 90 million sovereigns. Thus, we are confronted with this dilemma. If silver had not gone all to pieces, and thus destroyed our export trades to Asia and thrown all the exchanges against Asia, there must have been during the last financial year such vast shipments of our gold to Asia as might have produced the most serious panic. Next the United States would have embargoed the export of her gold and where under such conditions sterling exchange on New York would have gone to who can tell? That prospect for the dollar still gravely menaces our exchange in the near future. We may not improbably see such a further drain of gold to the Orient as may result in New York exchange at $2."

In addition, I remember to have read Mr. Moreton Frewen saying that but for the Reverse

Councils liquidating India's resources in London, the drain on England's gold and money power would be too enormous to bear. Now, this aspect to the bullion and money interests of London could certainly not have been forgotten by Sir Babington-Smith, Lord Chalmers (that hero of Ceylon fame), Sir Charles Addis and Mr. F. C. Goodenough. Did Messrs. Gubbay and Brunyate representing Indian Government sail along the current or, perhaps, the queer views of the Government of India, so mightily interested in the welfare of India, leave them no alternative but to concur in the decisions of their colleagues?

The third clue is that afforded by the vigorous statement of Major Grogan in March 1920, though he holds some vigorous views about Kenya to our disadvantage. He stated in a letter to the Press that there was no other explanation for their amazing action except on one of the following theories: namely,

"(1) A plot to whitewash the Indian Government.

(2) Political influence leading to a premeditated policy of assisting Manchester and Dundee exports by imposing a burden equivalent to 100 per cent. sterling Excise on their competitors in India.

(3) Financial influence leading to a premeditated policy of sweeping every Indian debtor into the maw of the British Banking Trust.

(4) Subservience to some factor desperately interested in the maintenance of the high value of silver.

(5) An organised attempt of the Indian bureaucracy surreptitiously to multiply its salaries and pensions.

(6) All-round general nescience on the part of all the responsible authorities."

Every one of his conjectures has proved correct except his remark under (4) and (6); for nobody, but Mr. Hailey that round man in a square hole, thought that the price of silver would remain high, not even the members of the Babington-Smith Committee. Nor can it be said that there was any general ignorance on the part of all the responsible authorities; for, subsequent developments show that all of them except Mr. Hailey were too uncommonly shrewd in this affair. Not only have Mr. Grogan's first three 'theories' come to pass and become established facts but also they are trying to make good by means of the Lee Commission where they failed "surreptitiously to multiply its salaries and pensions"—a

very mean procedure after all the havoc caused.

Sir Charles Innes, also, has given a glimpse into the mentality of those who wanted the 2sh. rate. He said in the Legislative Assembly during the debate on the Stores Purchase Policy,

> "We know that Germany and Belgium can dump by reason of their depreciated exchanges."

> "We must give a moderate amount of Preference to British firms, while the present economic situation continues (though protection in India, however small, lets loose the floodgates of alarm and hypocrisy in England). Mr. Sethna must know that Germany at the present time is pursuing a deliberate policy. She has set herself out to depreciate the exchange value of her mark in order that she may capture the markets of the world."

This is on all fours with Major Grogan's warning or exposure under No. 2. The point is, England deliberately set herself out to depreciate the exchange value of her sterling in order that she may capture the Indian market as against foreign and local competitors. All the talk about the high price of silver, the fear of inconvertibility, the concern to save in

Home Charges is all sheer bunkum, a mere camouflage or, it may be expressed, as a red herring drawn across the trail. The real purpose was to depreciate sterling in terms of the rupee; and, to give it an air of reality and permanency, Reverse Councils were sold so that the pressure of remittances both by importers and profiteers may not bring down the level of exchange too soon. In other words, sterling is to be depreciated—a course against which England is everyday inveighing with respect to the depreciated exchanges of France, Germany and Belgium—in terms of the rupee at as low a rate and as long as possible.

Indians also were not behind-hand in giving previous warning which had absolutely no effect. No wonder, as our benefactors had then made up their minds and as they were only fishing for a most favourable opportunity from July 1919 to February 1920. I am not referring here to the speeches of Sir Fazulbhoy Currimbhoy and Mr. B. N. Sarma (as he then was) in the Legislative Council in March 1920 nor to the belated but thoroughly correct statement of Mr. J. B. Petit in July 1920 that England is inventing all possible methods to evade her

payments to India. The President of the Industrial Conference in 1919, (December)—I believe, it was Sir Fazulbhoy Currimbhoy—said,

> "To give you an example of how seriously handicapped we have been in the past through the secret currency dealings and policy laid down by the Civil Service and the British trade interests dominating the Government of India, I would only cite the state of our Currency Reserve, Gold Standard Reserve and the Treasury Balances. During the war, to prop up the tottering fabric of British credit in the London money market, enormous sums of Gold Standard Reserve, Currency Reserve and Treasury Balances have been transferred to the London market aggregating altogether nearly 150 million sterling. This enormous sum of 150 million sterling was transferred to London when exchange sterling was at 1sh. 4d. To-day, as you are aware, the exchange is 2sh. 4d. that is to say, a loss of 112 millions sterling on a remittance of 150 million sterling. May I ask how is this enormous overbought exchange position of the Currency Reserve, Gold Standard Reserve and the Treasury Balances of the extent of 150 million sterling

is going to be liquidated. Who is going to bear the loss? Are you Indians going to bear the loss, or the British Treasury? May we, Indians, be excused when we look upon all those manipulations of exchange to its present level with strong suspicion that it may be in order to facilitate the remittances by the British Treasury to India at the present rate of exchange."

Besides, timely warning was given and objection was raised, against the policy of the Government by Mr. S. R. Bomanji to whom as well as to Mr. B. F. Madan, real credit must go for first opening the eyes of their countrymen to the danger involved in the Government's rash venture. And even when the people came to realise the Exchange policy in all its implications, the Government went on in their mad course in utter defiance of public opinion. It is of course a most humiliating thing that any so-called civilized Government should have acted like this in the twentieth century and that, a year before the Reforms. It is obvious they wanted to meet the new Legislature with certain settled facts, leaving them the sole comfort of interpellations and impotent railings. For, as Mr. Bomanji put it,

"In matters financial, the Indian Civil Service colluded with British merchants to bleed India in order to infuse new blood into England's trade."

And even the *capital* had to record,

"The Bombay merchants deeply resent the currency policy of the Government, which they believe has been deliberately adopted to bolster England at the expense of India."

The most important clue has been afforded by the Government itself. They issued a communique in 22nd April 1920, as follows:—

The close attention of the Government of India has been directed to the recent course of exchange as influenced by circumstances external to India's internal trade conditions and the policy adopted on the recommendations of the Currency Committee. The initiation of the currency policy, coinciding as it did with a heavy fall in the dollar-sterling exchange, involved a rate of rupee-sterling exchange on a markedly higher level than that previously prevailing. To meet the situation created, the Government of India increased their offers of Reverse Councils with a view to support exchange. In the interval which has since elapsed, the large sales of Reverse

Councils and the marked recovery of the dollar-sterling exchange have brought into closer proximity the market rate of exchange and that based on the rupee equivalent of gold."

I could not at first make head or tail of this *communique,* so mystifying it was. The only glimpse I derived was that Reverse Councils were sold to prevent a fall in the dollar-sterling exchange and that, actually, the sale of Reverse Councils in India led to the recovery of sterling in terms of dollar. The best commentary was at last afforded four years hence in the reply of Mr. McWatters, Secretary to the Finance Department, to the Indian Merchants' Chamber on the latter's protest against the recent sale of £2 millions gold from the Paper Currency Reserve. Mr. McWatters in his letter, dated January 25, 1924, says:

"If the ratio of 1sh. 4d. gold is to be achieved, it will be necessary to begin by removing the discount at which the rupee now stands below parity reckoned at that rate; and yet the chamber has protested strongly against a sale of gold which will, *pro tanto,* tend to reduce the discount.

The sting of the scorpion is in its tail and the last remark conveys a world of meaning. Mr.

McWatter's reply seems to be modelled, even after the rebuke administered to him by Sir P. S. Sivaswami Iyer, after the fashion of the Cook-ian sophistries with which the country was entertained and beguiled for four long years. The purpose of the sale of Indian gold was to raise sterling in terms of dollar. If they were but allowed a free hand, they would spirit away all the gold which India has, to recover the sterling parity with gold. Now this unveils the mystery contained in the Government *communique* of April 1920. The result of the Reverse Councils was, among other things, that India was prevented from acquiring gold, other than the meagre Government sales, and all the gold was diverted to U.S.A., so that sterling which had been in the dumps, might rise in terms of gold. So it did from 3·20$ to a £ to 3·90 and the Government announced to an admiring world that the market rate and that based on the rupee equivalent of gold came "into closer proximity." Of course, their triumph was a short-lived one as the rupee fell to 1s. 3d. in 12 months, but their object was achieved. The real object was not to support rupee-sterling exchange but to raise sterling to its parity with gold, by keeping out

India specially from the gold market. As in 1920, so in 1924, India still continues to be a pawn in their game and she is ever to be dragged behind their chariot-wheel. Poor England, she is obsessed with the idea of reaching sterling parity* with gold at any cost, only at other's cost. It will be our purpose to show in the next chapter what cost has accrued to India by the policy of 1920. It will also make us realise with the *capital*,

> "That we have been dreadfully victimised by the insane financial policy of the Simla autocrats."

*Formerly, one pound sterling was the same as one gold Sovereign. After the war, the pound sterling depreciated in terms of gold and is now worth about 18/20 of one gold sovereign.

THE BLIGHT OF HAILEYISM

'It is a terrible thing, this blight' so wrote the *Madras Mail* adverting to the burden of Provincial contributions, especially of the heavy contribution which Madras makes to the Imperial "wasters." But what a terrible blight has overtaken the country by unchecked Haileyism—the only mitigating feature being, Mr. Hailey of 1920 was only the gramophone of the India Council above and of Mr. Cook below—has only to be explained in detail to be realised. It is impossible to assess properly the huge losses and the vast damages sustained by the country. Even Lord Inchcape had to confess that he could not solve the mystery as to what drove the Indian Government to this most foolish transaction and he asked as to what the balance sheet of this coup looked like. Sir Montagu Webb, a rare specimen of an Englishman, not far from the type of Sir William Wedderburn, estimated the losses arising from Reverse Councils sales of 1920 as being not less than £200 millions or Rs. 300

crores of rupees in addition to the direct loss of Rs. 35 crores. My own estimate is that India has clean lost about not less than £300 millions or about 500 crores. The pity of it is, the men responsible for it are flourishing more than ever, the Service which has given birth to such official geniuses, primes itself on being the foremost service in the world and thinks it requires a further reward in the shape of increased salaries for the faithful and efficient (mark the words) discharge of its duties towards India.

To substantiate our charges, we must depend on 'facts and figures' which is the only one that would impress an impartial Englishman, which type has certainly not become extinct. The losses have been :—

(1) The low rate at which our sterling securities have been sold and the manner in which India's sterling assets in London were practically made non-existent or destroyed.

(2) The liquidation of English debts owed to India without her getting any return, but with India forced to incur loss in the bargain.

(3) The heavy exodus or flight of capital and, consequently, tight money market and high rate for internal loans.

(4) The decrease in the national wealth owing to the fall in the price of securities and stocks, Government and industrial.

(5) The huge foreign loans raised by the Government and, in its wake, by all the alien controlled Local Bodies and Corporations only too glad to float loans outside and thus, an increase in Home Charges.

(6) Companies in India either wound up or issuing debentures carrying very high rates of interest.

(7) The direct exchange losses of the Government as well as losses in revenue owing to less wealth and less income and hence greater taxation.

(8) The dissipation of national wealth by the artificial stimulus given to a very unhealthy excess of imports over exports.

(9) The very effective prevention of the import of gold into India and, on the other hand, stimulating the export of gold.

There are other visible and invisible items too numerous to mention. One such may be mentioned and that is a stroke of clever legerdemain on the part of the Government. Estimating in their innocent and childlike simplicity the exchange rate to be 2sh. 6d. for

1920 and 1sh. 8d. for 1921 and by this clever paper manipulation, providing for a huge windfall of crores of rupees as if they dropped from the skies, they increased the expenditure right and left, rather extravagantly to an unheard-of level, and when exchange broke down under their very hands from 2sh. 11d. to 1sh. $2\frac{1}{8}$d. a rupee in 14 months—an ignominious fall—the expenditure came to stay; but the anticipated profits, all went agley, to quote the *Capital*. The increased expenditure, based on exchange profits, came home to roost and the people had to foot the bill in the shape of a multiplicity of increased rates, taxes and duties. If there had not been the lure of high exchange profits, there would not have been the temptation to enter into unnecessary commitments. But, did they at least increase their expenditure on objects of social and economic well-being, with those expected profits? No, as any reference to budgets will show. The wonder of it is, they did not carry their beatific vision and solicitude for the Indian taxpayer to the height of, say, a 4sh. exchange and a 5sh. Reverse Councils and Indians need never have paid any taxes at all, as the exchange profits alone would have met all expenditure!

There is also one other item of loss in which there is some compensatory gain which shall be explained later on. If only they had not sold Reverse Councils at that time and at that rate, and, perhaps, if they had sold them at about 2sh. sterling rate in driblets even though the price of silver might have fallen and the cross rate rose up—of course, we know they were in a hurry to finish up the affair before these two expected things happened—I dare aver the exchange rate would never have fallen below 1sh. 8d. and would be hovering between 1sh. 8d. and 2sh. In stating this, I do not ignore the depressing effect of an unchecked import of gold and silver and the rush of remittances to England. Still, exchange would not have fallen so abjectly, but would have remained at a higher level, round about 1sh. 8d. these four years. To that extent, there would have been a gain in the exchange on their Home Charges all these years instead of the Government registering a loss sheepishly and with a woe-begone countenance. That this is no chimera is borne out by the intriguing remarks of Prof. Stanley Jevons who, in his books, taking up an attitude of "willing to wound, yet afraid to strike" suggests that even now it is not an impossibility of raising ex-

change to 2sh. by judicious deflation—that blessed word which has wrought such havoc at the hands of an ignoramus like Mr. (now Sir) Hailey. Why! even when exchange was tumbling down under the pressure of remittance—a quite natural result which our Government pretended to ignore—irrespective of the price of silver, Messrs. Samuel Montagu & Co., one of the Deputy Providences over India, to whose report we turn whenever a silver crisis occurs here, opined that even if the price of silver fell, 2sh. rate could be maintained.

All this digression is to show that if the Government had not been in such an unseemly hurry, exchange could easily have been maintained at about 2sh. Thus there would surely have been exchange gains these four years and less taxation. Besides, there would have been no need for the inquisition of an Inchcape Committee in spite of all extravagance in military and other adventures. Scandals like the Chaklala Workshop, Nasik Acetone Factory and the results arising from the visitations and advice of Lord Montagu of Beaulieu would never have seen the light of day and would never have been exposed. And India would surely not have grumbled at any number of

Waziristan expeditions and at any increase in posts and salaries. With the exchange at about 1sh. 8d., the Services would not have been reduced to direful straits, they would not have paraded their ragged condition and India and her Services would have gone on pleasantly without the Lee Commission and its attendant evils, intrigues, betrayals and its pound of flesh theory. They wanted to eat the cake and still have it. Reverse Councils were sold when there was no need, to help the remitters and the several interests in England and when, later on, exchange naturally fell, the Services desired the benefits of the fictitious 2sh. rate in perpetuity without sparing a minute's thought on the losses that India was made to suffer.

The losses have been enormous to India ; and to England, the gains, direct and indirect, arising from the forced policy of Reverse Councils have been even beyond the dreams of avarice. Now to make an estimate of the losses* :—

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*(Here, the order given in page 35 is not followed.)

I

In January 1920, India had to her credit £55 millions in the Paper Currency Reserve invested in sterling securities or British Treasury Bills which, as the Currency Reports and Budget Statements of 1917 and 1918 stated, was nothing but so much amount loaned to the British Government and was convertible into gold if India so wanted, at any time. It was throughout treated as an investment in England which may be used even for capital purposes. In his Budget speech, 1917, Sir William Meyer said,

> "We have withdrawn £19 million from the Paper Currency Reserve in India, placing ourselves in a position to do this by taking power from time to time to increase our Paper Currency Reserve investments in England * * * and to hold a portion in British Treasury Bills which are the next best thing to gold. * * * We have lent to the Home Government for the time being the funds required for a considerable portion of their outlay in India."

In his Budget speech, 1918, Sir William Meyer a second time, explained the nature of our holdings in London and said,

> "We propose, therefore, as against our temporary borrowings on Treasury Bills here, and in view

of the satisfactory financial position of India as a whole to invest £20 million in Home Treasury Bills in order to provide for the liabilities which one way or another will come upon us shortly after the war is over.

This investment will, of course, help the Home Government *pro-tanto* in providing funds for the war. And counting in investments from the Paper Currency and Gold Standard Reserves, we shall thus have put £32 million of fresh money into Home Treasury Bills this year, making in all, in addition to the £35 million we had already put in up to the end of 1916-17, a total of £67 millions lent to the Home Government, and quite outside our special war contribution since the war began. This will be increased by £16 million in the coming year through the additional investment against the Paper Currency Reserve proposed in para 70."

The Currency Report of 1917-18 also has the following:—

"It may perhaps be not out of place to note here that the holdings of the Government of India in Treasury Bills, National War Bonds and Exchequer Bonds in the Paper Currency Reserve and Special Reserves amounted on the 31st

March 1918 to over £52 million representing, as was described in paragraph 53 of the Finance Member's speech, an "overbought position" caused mainly by reason of the expenditure incurred in India on behalf of His Majesty's Government, but also as a result of the rupee funds placed at the disposal of the trade. These sums are in effect loaned to His Majesty's Government and are, of course, in addition to India's contribution of £100 millions to the war."

The Currency Report of 1918-19 also treats the subject in the same unsophisticated manner when, perhaps, the idea of squandering all these precious investments in England, which were virtually loans to her, had not then dawned. It says,

"The securities held in the Paper Currency Reserve increased from £40·98 millions to £65·72 millions and save in respect of £4·05 millions invested in Indian Treasury Bills, the additions were all in the form of British Treasury Bills. These additional investments were authorised by Act VI of 1918 and Act II of 1919, raising in all to £66·67 millions, the total amount of admissible investment. Consols of the nominal value of £1·63 millions were

sold during the year and the sale proceeds supplemented by transfers from the Depreciation Fund were invested in British Treasury Bills."

These accumulations of India's resources banking up in London were an eye-sore to Lombard Street and its co-adjutor, the India Council, and in the name of supporting exchange, about £ 55 millions were wiped off. The Paper Currency Reserve is not certainly the first line of defence in supporting exchange and the Gold Standard Reserve should have been first used. We are discussing in another place whether there was need to support exchange at all and whether there was really any inflation that required to be dealt with by contraction in circulation by means of Reverse Councils. Here, it is enough to mention that the sale of Reverse Councils to the extent of £55 millions in 1920 at half the rate (i.e.,) at Rs. 7,8 and 10 to the pound caused not only a loss of Rs. 36 crores as even officially admitted, but by this step, England had cleared herself off her debt to India. If the £55 millions had not been spirited away, it would have served the original objects as mentioned in Budget speeches, of post-war liabilities, capital expenditure, and helping the Secretary of State's

Treasury Balances when Council Bills could not be sold. Later on, the balance of £8 millions in the Paper Currency Reserve was utilised in this manner.

The direct and immediate loss was this item of about Rs. 36 crores, not a small sum all thrown away into the mouths of greedy sharks of remitters. Under this heading must be included some secondary, though direct, losses which have arisen from the sale of the £55 million British securities in a falling market when the Bank of England rate was 7%, to meet which, perhaps, £1 or £2 millions were drawn upon from the Depreciation Fund or from the Treasury Balances. On the whole, about £57 millions of India's sterling assets were destroyed in a trice. The official figures of the direct loss are as below:—

Year	Amount sold	Their real value at Rs. 15 per £	Amount realised by Government	Loss to India	Average rate
	millions	crores	crores	crores	sh. d.
1919-20	£24·54	36·81	18·55	18·23	2 . 7.7
1920-21	£30·98	46·48	28·55	17·92	2 . 2.04
			Total loss	36·16	

In the above, are included the drafts sold in April 1919 to the extent of about £150,000, and if they are omitted, the loss would be about 36 crores. If, taking pity on a much misguided Government which has been trying to minimise these losses, we omit the councils which were sold in January 1920, before they gave effect to the Currency Committee's recommendations, the loss from February 1, 1920, comes to about Rs. 32 crores.

II

Viewed from another standpoint, it can be claimed that the whole of the £55 millions is a dead loss to India. As Mr. Cook, the then puissant Financial Secretary said, in 1921, gain or loss in exchange would only arise if a sum transferred to India or England is retransferred in the opposite direction at a different rate of exchange. There was no necessity for retransferring this £55 in the manner it was done. There were the inevitable 'Home Charges' every year; there were again the huge capital liabilities to be incurred in England on account of railways; or, as the Indian Merchants'

Chamber suggested, they could have used this £55 million to liquidate the sterling debts of India, they could have mobilised Indian securities in London and sold them to the Indian people, or they could have used a portion of the £55 million to pay off at least the balance of £20 million of India's war contribution of £100, which was left unpaid. They did none of these. Instead, England was relieved of her debt of £55 millions and practically, this was a repudiation of her debt to India.

Now, let those who are raising an outcry against the Gaya Congress resolution, including Pandit Motilal Nehru, look into this transaction and see how deliberately and artfully, this repudiation of debt has been effected. England has gained to the extent that the £55 millions loan due by her has been extinguished without India getting practically any return. Since England herself has had recourse to the repudiation of her debt, though it was with her own dependency—enthroned as an equal partner only for mulcting the heavy contribution to the League of Nations—how can she with any justice complain if States, less fortunately placed, are driven to a like course? It was England that first suggested the cancel-

lation of debts and it is said that Sir Basil Blackett was the author of this ingenious scheme. She tried her best to draw in U.S.A. into this trap, but Uncle Sam simply shrugged his shoulders in an impatient manner and pretended not to hear the loud noise of the one-sided discussion which was carried on in the other side of the Atlantic about the cancellation of debts. All the time, Uncle Sam kept quiet till the buzzing clamour died down, and, then, firmly insisted on England paying her debts. Even here, England managed to get her debts reduced by one-half, and instead of paying £60 to £70 millions per annum, she got a substantial reduction and she is now paying only £30 to 36 millions per annum. Some Americans have taken an adverse view of this transaction and have stated that England has repudiated her debts by one-half.

When even rich England is not above adopting such measures, it is no wonder if repudiation becomes an accepted creed. Considering the injustice done to India as well as the above example, our sympathies will be with France, Italy, Russia, and other countries and we can only hope, they will stick on to their resolution and will not yield to England's blandishments or

allow themselves to be coaxed into paying the debt. Here, one thing must be mentioned to the credit of England and that is, she was prepared to cancel the debts due to her and this was almost the only one act of magnanimity you find in all England's history. And even this was conditional on America's cancellation of debts due by England. Whatever it be, nations in like predicaments will be justified in giving their moral support to Russia and others in their determination not to pay up their debts. Some will even be driven to a fervent hope that the grant of Jubaland to Italy will make no difference on the debt question. It may also be hoped that Russia will stick to her resolve not to pay a farthing of her debts. It is how the law of Nemesis must work, if it is to work at all. Indians will also be justified if they carry on propaganda work telling these nations they are completely in the right and that they are only following England's footsteps. The treatment of India is one, if well-known and well-advertised, that is sure to have a great repercussion in the world, and England can no longer boast of her sanctity of contract and of her honour in the discharge of her foreign debts. She settled with U.S.A.

because she could not help it and America would not brook delay. But England has done to India the very things which she is objecting to in others, repudiation of debt and depreciation of her exchange.

Viscount Peel, one of the most impossible men that ever was Secretary of State, and to whom we would be thankful if he does not bother us with his meddlings—it is a wonder how every man in England thinks he is a sort of Deputy Providence over India and is an expert on Indian affairs—commended to India the policy of England and the latter's high code of honour. He said in a lofty strain or in high-falutin, in a speech at the Calcutta dinner in London, June 1923,

> "I hope and believe that we have been able to give much wise advice to India on constitutional reform and constitutional advance. But I believe that one of the best pieces of practical advice we can give India is to show the absolute necessity of strict finance. We in this country have paid our debts to America, or rather have made full arrangements to do so, and our position in the world has been enormously enhanced by the knowledge that the debts of Britain will always be paid (Cheers). If we can further

in India the policy of honest finance, of paying your way as an essential of good government, I feel sure that every Indian, be he co-operator or non-co-operator, to whatever province or religion he may belong, will feel that in striving for the absolute solvency of the public exchequer in India, we have done the country a great service (Cheers)."

When he uttered the above pious remarks he could not have been ignorant of the Currency and Exchange twist of 1920 and of its unsurpassingly far-reaching results. Not only have India's assets disappeared but she has been plunged into greater indebtedness as the next section will show. We may therefore hurl this unwanted advice back in the face of the man who bespoke it and ask him who is lacking in "strict finance" and in "honest finance" and who endangered "the absolute solvency of the public exchequer in India." What about "the debts of Britain" to India, my good bumptious Lord, Viscount Peel!

III

If the loss had been confined only to the direct one, India would not have minded it. But the indirect losses have been too many and too grievous. The Reverse Councils policy left in its trail a veritable crop of havoc and disaster. Of all the losses that befell us, the most devastating is the smashing of India's money power in the name of deflation, the flight of a much-needed capital and in consequence, the huge foreign loans raised in England. They have only to be mentioned in detail for the country to realise the machivellian spirit underlying their policy, in all its seriousness. Then no epithet would be too strong to characterise their action of 1920.

The Government of India sterling loans have been :—

			£
April	1921	7%	7,500,000
December	1921	5½% at 93½	10,000,000
June	1922	5½% at 95	12,500,000
November	1922	4½% at 85	20,000,000
May	1923	5% at 97	20,000,000
			£ 70,000,000

The Government so solicitous in the welfare of the Indian people had thus increased India's sterling obligations to the extent of £70 millions in 2 years. And, in its wake, the numerous foreign controlled Local Bodies and Trusts and a few Indian concerns unable to find funds in India owing to dear money market, have launched on foreign loans, a few like the Calcutta Port Trust simply itching to raise loans in England and that at even very high rates of interest. These loans are :—

		£
1921.	Calcutta Port Trust 7%	1,000,000
	Calcutta Electric Supply Corporation	1,750,000
	Calcutta Tramways	250,000
	Indian Electric Supply and Traction	250,000
1922.	Calcutta Port Trust 6%	1,250,000
	Karachi Port Trust	333,000
	Bombay Port Trust 6%	1,600,000
	Bengal Telephone 7%	350,000
	Calcutta Improvement Trust 6%	350,000
	Rangoon Port Trust 6½%	333,000
	Calcutta Corporation 6%	500,000
	Madras Electric Supply Corporation 7%	200,000

		£
	Patiala	50,000
	Tata Iron and Steel 7%	2,000,000

Excluding £ 2,000,000 debentures waiting to be issued and £ 1,333,000 old debentures raised in England

1923.	Andhra Valley Co. 7½%	1,000,000
	Tata Power Co. 7½%	850,000
	Tata Power Co. 4½%	1,000,000
	Kazimbazar 6½%	875,000
	Rangoon Corporation 5½%	300,000
	Rangoon Port Trust	300,000
	Calcutta Electric Supply Corporation 5½%	500,000
	Karachi Port Trust 6%	333,000
	Bombay Port Trust 6%	1,600,000
	Rangoon Electric Tramways	200,000
	Calcutta Improvement Trust 5%	1,000,000
	Madras Port Trust	500,000
	Do	330,000
	Bombay Corporation from Exchange Banks 65 lakhs or	433,000
1924.	Karachi Port Trust 5½%	333,000
	Madras Electric Tramways 5½%	130,000
	Calcutta Port Trust 5% at 90	1,000,000
		£ 21,100,000

Certain other loans and debentures might have been put through privately and I might have overlooked some. So then, the Government loan of £70 millions and the other loans of about £30 millions, both to the extent of about £100 millions have been raised in England in the short space of three years. There is also a likelihood of the 7% £7½ million loan of April 1921, doubling itself or becoming £15 millions if the conversion terms of the £15 millions at 3% are accepted by the bondholders. Since the conversion terms are so infamously favourable, that particular debt of £7½ millions will become £15 million loan at 3%. Altogether, India has been saddled with a heavy loan of about £110 millions in three years. The reader will now recall the amazingly correct prophecy of Major Grogan about the "premeditated policy of sweeping every Indian debtor into the maw of the British Banking Trust."

Now, let us institute a comparison in the Government of India's sterling debt before, and after, 1920-21:—

		Sterling debt.	Increase + or Decrease − (millions)
		£	£
1912-13		179,179,193	...
1916-17		174,144,124	− 5

Including the war contribution of £ 100 millions which was made in 1916-17,

		274,144,124	+100.
1920-21		191,329,245	− 82·8
1923-24		260,789,797	+ 69·4
1924-25	(Budget Estimate)	279,475,297	+ 18·6

The reader must be aware that the sterling debt of £179 millions in 1912-13 was the result of the accumulations of a hundred years, including in it the Mutiny Loan and East India Company Loans which were said to be unjustly included in our debt according to the late R. C. Dutt and to Messrs. Lala Lajpat Rai and K. T. Shah. Besides, the major portion of the debt was incurred for Railways and Irrigation or was termed as productive debt. By 1916-17, £5 millions were discharged.

Then came the perfectly justifiable War contribution of £100 millions which was demanded of India by England more to ease the overbought position of India in London and to help

in the Ways and Means programme of both the countries. I would not have regretted or opposed at all even if I had the power, if the contribution had been put down as £200 millions or £300 millions. It is generally said that Pandit Madan Mohan Malaviya, that prince amongst patriots, the noblest Indian of to-day, showed some opposition even to the £100 millions. On the most reliable authority, I heard at the time that the great Pandit learnt that £300 millions were demanded of India and that he showed a slight measure of opposition so that the figure might be brought down to £100 millions and so that the hands of Lord Chelmsford and Sir William Meyer might be strengthened in offering a lower sum. I demur to the view that is generally held that India's financial ills and higher taxation are due to the strain caused by the £100 million contribution. It is a surprise to me to find that even an able publicist and financier like Mr. Pheroze Sethna attributing the doleful condition of our finances to the £100 million debt and the interest payments. I repeat India would not have minded a £200 millions or £300 millions contribution if the Indian finances had been honestly managed and if great solicitude and care had

been bestowed on India's money power, at least to the extent that the Chancellors of the Exchequer have been displaying in England. The figures bear me out, for by 1920-21, £80 millions of the sterling debt or War contribution were paid off, India raising internal or rupee loans for this purpose.

England has not become poorer because she has to pay £1000 millions to America so long as her money power is not affected and so long as no envious hand strikes at the heart of her monetary strength. With all this £1,000 million, England has enormous surplus capital and she is even investing in America itself. India, too, would have been in this enviable condition. She too acquired some money power, capital resources and investing habit, and in 1917, 54 crores of rupee loan were raised, in 1918, 57 crores and in 1919, 21 ¾ crores and with these, the £80 millions of sterling debt were converted into rupee debt.

This was perhaps too much for the economic ogres in London—of the type of the pestilent Yate—who were getting alarmed at India's money power and who were pining away with jaundice. They were afraid that India would escape from their clammy hands and Octopus-

like clutches. The opportunity offered itself in the shape of Reverse Councils to transfer India's surplus money power to England and to force India into still greater indebtedness. Official apologists beginning from Strachey, and down to Sir Theodore Morison and Mr. H. F. Howard —one of the 'busybodies' in the devil dance and muck-rake in 1919 and 1920—have been at pains to show that the Drain theory, the pet complaint of Indians, was only a figment of the imagination, that there was nothing like Drain and that India was only paying the Home Charges for services rendered, for stores purchased, and for the interest on loans. How can anyone think of complaining against such justifiable charges or of repudiating them? These *Pundits*, the opponents of the Drain theory, of course in their generosity, gave us hope that the moment India raised her own loans for her needs and supplied the stores needed, the Home Charges would be automatically reduced and such a desirable state of affairs remained in the hands of the Indians themselves to achieve. This solicitude for the reduction of Home Charges is only a paper solicitude like that shown for greater expenditure on Education and Sanitation at the time of levying any additional taxation,

"Of the above items (Home Charges) capital expenditure and cost of stores represent almost entirely, actual payments in purchase of railway and other material. That such purchases are made in England is due to the fact that it is not as yet possible to purchase in India the articles required or else not possible to purchase them as economically. The extent to which a reduction in the Home purchases may in the future be possible, depends upon India's industrial development."

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The policy of the Government of India is to raise in that country so far as this is practicable, the money required for capital expenditure, supplementing the amount so raised by sterling loans in England.

The existence of the sterling interest charges is due to the fact that India has had, like many of the Colonies, to have recourse to British capital for the proper development of her resources. The transaction is entirely a commercial one for India's benefit and the payments are made for value received."

Such a golden opportunity offered itself in 1919-20 to reduce the incidence of Home Charges or Drain. Did Mr. Howard try to put his preachings to practice or did the idea suggest itself to any of the luminaries of the I.C.S. whose capacity Lord Curzon and others are not tired of lauding to the skies? In the Budget speeches in 1923 and 1924, Sir Basil Blackett raises this issue. He seems to have become alarmed at the growth of India's debt and has outlined methods for the redemption of debt. Hence, he makes a rather belated—belated not from his standpoint as he, poor man, came in only in 1923 to clear the unholy mess created by Cook-ian vanities and cocksureness—confession that a high exchange would have mitigated the burden of sterling debt. He says in his Budget Speech, 1923,

> "The Government of India's sterling debt of £240 millions sterling at 1sh. 4d. amounts to 360 crores, at 1sh. 5d. it amounts to 339 crores, at 1sh. 6d. it amounts to 320 crores while at 2sh. it amounts to 240 crores."

This blissful and glorious prospect was present in 1920 and never to recur, although we hope Sir Basil Blackett will not allow himself to be lured by this vision into manipulating the

exchange to any higher level than 1sh. 4d. In 1920, the sterling debt was £191 millions. They had only to carry on the policy of 1917 to 1919. The £55 millions could have been used to pay up a portion of the sterling debt. Since exchange was favourable in 1919 instead of raising a paltry 21 crores at 5%, they could have raised unlimited rupee loans at 5½% or 6%—the latter rate prevailed in the three years after 1919—and thus converted as much of the sterling debt into rupee debt. Are we crying over spilt milk? No. Our complaint is, they deliberately did not want to do it. Instead, after creating money scarcity in the name of deflation and aiding actively in the export of capital, they began to incur sterling debt within a period of six months after the Reverse Councils sales and that, at the exorbitantly high rate of 7 per cent. and with the ludicrous conversion terms at 3 per cent. in perpetuity. Thus, by the end of 1923-24 £70 millions were incurred by Government in two years. Even the London *Times* expressed some concern that such a huge loan should have been raised in such a short time. In the Railway Committee Report, a list of loans raised in England in the pre-war period is given and in

15 years, the total raised was about £94 millions or on an average of £6·3 millions a year. The utter enormity of the offence will be more clear when we take into account the position in the pre-war or war period. For example, that rare Financier, Sir William Meyer said with evident pride and satisfaction, in 1918,

> "In the current year, we have completely kept out of London market. Indeed we have gone further. We have this year discharged £2 millions of previous sterling debt, while the sum total of our net Indian borrowings has reached what would have been in normal times a great figure for any country and is a gigantic one for us, viz., £65 millions."

So then, it is clear under happier conditions or if the late Sir William Meyer had continued as Finance Member, instead of the runaway Sir James Meston, (now Lord Meston) who resigned at the nick of time—he did not perhaps like to compromise his reputation and he left the place to an amateur whose only qualification was "gift of the gab in the running" as 'Sam Weller' would say, and now Lord Meston talks pompously, though he failed in his duty at the critical time—our sterling debt would now be

about £100 millions instead of £279 millions. And all the loans raised in England could have been raised within India itself. This question of money and capital in India deserves to be discussed at greater length in a separate chapter. Here, we are concerned with showing up the losses. Before proceeding to the next section, we shall just haul up the Corporations and Port Trusts which have of their own accord acted or have been allowed by the Government to act, in a like irresponsible manner. The debt of these local bodies was as follows :—

Year.	India.	England.
1914	Rs. 50,30,24,329	£2,232,600
1921	„ 63,30,81,325	£2,232,600

As we see, in this interval, the rupee loan of these local bodies increased by 13 crores while the sterling debt remained stationary. After the holocaust of 1920, all these bodies mostly alien controlled, fell on each other in their eagerness for raising sterling loans and the result is that about £12 millions sterling debt has been raised in three years, as if with a vengeance, no small proportion compared to the total debt. Even the *Times of India* was forced to record its protest against such irresponsible action done almost with the connivance

of the Government. It wrote about four or five times viewing the whole affair with considerable apprehension. The following are two typical comments from its commercial columns:—

> "The ever growing load of sterling obligations cannot but be viewed with grave misgivings. * * It is becoming increasingly difficult for this country to meet her sterling obligations and the continuous addition to the sterling loans may have a disastrous effect on the Indian exchange and financial position in the future." May 18, 1923.

> "Every million now borrowed in London will aggravate the exchange situation in the years to come, and from this point of view the rush of Indian Local Authorities to borrow in London needs to be discouraged." June 22, 1923.

Here, one curious fact may be pointed out. The greatest sinner in this respect, the Calcutta Port Trust opposed protection to iron and steel on the ground that it would cost all the Port Trusts in India 5 lakhs more. What dishonesty! On the sterling loans, these Port Trusts have raised at 7% and 6%, (i.e.) at 1% more than warranted by the money conditions,

these Port Trusts are paying about 10 lakhs more every year than if they had raised them on reasonable terms.

We cannot conclude this section better than by requesting Sir Basil Blackett, the author of the cancellation of debts scheme, to see that England first shows her generosity towards India by cancelling a portion of the debts which have been most unjustly forced on India. Or, the Congress may have to reaffirm its repudiation of debts resolution and even seek for ways and means for effectively carrying out the object of this resolution. Sufficient proofs have already been given that no stigma attaches to it, and its sponsors, as they have the partial example of England before them, need not be daunted by the criticism of its being comical in nature or of its being a much-abhorred Bolshevik *un*-moral tenet.

THE BLIGHT OF HAILEYISM—(*Continued*)

IV

If Englishmen were in our position and if they had been victims of such financial jugglery or sharp practice, the world would have rung with horror at their denunciation, for they are given to exaggeration and hysterics when anything affects them. They would, by this time, have accurately measured the extent of the losses and would have presented a bill of damages to the perpetrators thereof, or if they were so impotent as we, at least to God Almighty. Look at the rapidity with which all the actuaries and experts were set to work to assess the damages caused by Germany and latterly by Russia. Perhaps, since they are not the aggrieved party and since they were the gainers and beneficiaries, they have secretly counted their gains and are chuckling and "sniggering" within themselves.

In peace time, India has been made to suffer all the financial damages which any of the active belligerents in the war would have suffered. Still, there is not the slightest sign anywhere that the effects of the policy of 1920

have been comprehended fully. There is not even the proverbial turning of the trodden worm. Perhaps, it is too much to expect this of a nation that allowed that vile Caliban, Frank Johnson to stay in India for a long time. Except for a vague idea or discontent that there was a loss of 35 crores, this ancient country is going on in the same immobile way as ever, even in the same passivity as in the days of the costly descents of Muhammad Ghazni and Nadir Shah. The only sensible remark that ever Michael O'Dwyer made in all his life was when he said that 'Indians are not commercially minded'. I am not sure therefore whether the Indian reader himself is not getting tired of this actual following up of the losses and estimating their extent.

To resume, in the Imperial Financial Statements, there are found two sections, Interest Receipts and Interest Charges, which deal in detail with these two items of Revenue and Expenditure. The importance of this section lies in the fact that this acts as a tell-tale for the losses that the country has sustained in interest in either way. On the one hand, the interest receipts in England that helped to reduce the incidence of the Home Charges

have considerably dwindled down, while on account of the heavy loans, both in India and in England, raised even at 6% and 7%, the debt services have mounted up, and the Home Charges have considerably increased. The interest receipts of our sterling assets in the Paper Currency Reserve in England were as follows:—

1916-17	1917-18	1918-19	1919-20	1920-21
£399,152	1,429,349	1,710,850	2,306,357	1,242,032

The year 1919-20 was the year in which the full result of the £55 millions investment accrued to the benefit of the Indian revenues, and in 1920-21, as a consequence of the weekly utilization of these investments for meeting reverse drafts on London, the interest fell to half of previous year's. In these three or four years, our Home Charges were reduced by the interest accruing in London. In 1921-22, and thereafter, there was practically no receipt under this head as the green-eyed monster had reduced the assets to thin air.

In 1920-21, the interest paid on sterling debt was about 10·85 crores. In the Budget statement, the interest on ordinary debt is given as Rs. 6·61 crores (i.e.,) £1 being taken as equal to Rs. 10.

[If an Englishman were writing this, he would not have modified this 6 crores into Rs. 10 crores, as it would enable him to make the figures lie and to show up a greater contrast. For, the Englishman is a liar in the pursuit of national ends. I have the warrant of Emerson for saying so, as he himself has written that the Englishman " with individual truths " and " national untruths"—in the former, he is the very Mount Everest—is conquering the world.]

In the revised estimate for 1923-24, the interest to be paid in England comes to Rs. 15½ crores and the Budget Estimate for 1924-25 shows 18 crores. In 1919-20 and 1920-21, the net interest paid in England was only 7 crores and 8 crores respectively. Hence, the net worsening of the position is by about 8 crores each year, if we exclude the Gold Standard Reserve interest, which is an uncertain factor.

What between the increase in sterling interest charges and the ingenious demands of the War Office, the net Home Charges are in the ascending scale, as shown below:—

1919-20	1920-21	1921-22	1922-23
£21,791,489	28,190,898	26,218,136	28,708,412.

For 1923-24 and 1924-25 if we exclude the

Gold Standard Reserve interest and the windfall of the price of enemy ships, which items to concede to India, the Englishman is so gracelessly grudging, the net Home Charges come to about £28 millions. Before 1920-21 for a long period, the Home Charges ranged from £18 to £20 millions. Now it looks that the £28 millions have come to stay and if the threatened £ 40 million pensions demand is accepted by the Indian Government after a show of opposition—another first rate scandal—the Home Charges may come to £30 or 32 millions, which, under more honest conditions, should now be less than even £14 millions. Now, God help India from her friends who are shedding crocodile tears about the Home Charges, but all the time are burrowing in the opposite direction.

Here, again, let me refer to the 7% loan of 7½ million sterling. A complaint was then made that not only was the rate of interest high but that Indians were shut out from subscribing to the 7% loan. The then Financial Secretary took an impish delight in pointing out that even if the subscription list had been open to Indians, the rate of exchange was against remittances from India as it was about 1 sh. 3d.

He was not ashamed to gloat over this discomfiture of Indians with the same cruel spirit with which a common cheat would rejoice openly over the misfortunes of his victim. If there had been no Reverse Councils, as I have said, all foreign loans could have been avoided, not to speak of paying off old debts; and if necessity arose for a foreign loan, with exchange at 1sh. 6d. or 1sh. 8d. India could easily have competed for any sterling loan. Though the 7% interest and the conversion interest of practically 6% for all time might have been thought of as a fair rate by some innocent persons in the rump, yet I have a shrewd suspicion that some one amongst them could not reconcile himself to the India Office charges being placed on the British Estimates and that he wanted an opportunity to fling back this charge on India by some indirect means. Such is his or their nobility and magnanimity! His penurious soul was not satisfied with the orgy and the gains of Reverse Councils for a whole year, but must follow post-haste with the 7% loan, casting all decency to the winds.

In all this list of outgoings, must be included the interest charges that have to be remitted to England by the Local Authorities in India and

some companies whose loans list has been given in a previous page. As these loans could have been easily raised in India and should have been so raised, there goes, bang, another 2 to 3 crores each year. What did Mr. Howard feel on all this, for whose sake, a new post of Controller of Finance was created in the India Office in the eventful year 1920? The prospect that he held out of mitigating the sterling obligations or Drain has been wrecked beyond all chance of recovery. Hence, there is some poignant pathos in the belated recognition of this aspect by Sir Basil Blackett in his Budget speech, 1923. He said,

> "The sterling debt of £240 millions (now £279 millions) represents a claim on India's production of goods and services in the future up to the value of the principal together with a further claim on those goods and services for interest during the interval until the principal is paid off."

This is but a grim mockery, though unintentional, and it serves as a reminder of what might have been. The Old Man of the Sea has been firmly fixed upon us and there will be no more chance of shaking ourselves free from it unless, in some world upheaval, we repudiate the

debts, clean—completely and thoroughly. The Drain is a very real thing, Oh! for the shades of Dadabhai Naoroji and Ranade, and this will add to the poverty and the low income of the people of this country.

Lest we be accused of exaggeration and of unreasonableness, it is but enough, if we refer to how Englishmen themselves feel about the £30 to £36 millions which they have to remit to America every year. They are themselves now under the harrow and they must sympathise with Indians unless they are crassly selfish-natured. The settlement of American debt has been acclaimed as the greatest act of honour and integrity which no other nation can emulate, though there has been opposition to it from two extremes. As I have stated before, some Americans hold that England has hoodwinked America by making the latter forego half the debt. But there is Mr. Lloyd George who has definitely stated, there was no hurry to settle this debt and that he would not have settled it till the Allies paid their dues to England. This is a kind of repudiation and we have therefore a supporter in Mr. Lloyd George. Will England generously forego her claims on poor India? It is perhaps easier for a camel to pass through

the eye of a needle than that at any time England would bring herself to renounce her claims specially on India, even though 90 per cent. of them are thoroughly unjust. If rich England turns a deaf ear to this modest demand, poor India will continue to be an economic slave to England for an indefinite length of time just as she had been for the last one century and she will have to puff and sweat and pant to meet these ever-growing Home Charges or tribute levied on her.

It is interesting to note how Englishmen feel about the £30 millions due to America, a sum almost equal to our Home Charges. What applies to England applies to India in still larger measure. One English writer says,

> "Payment can only be by way of goods, or services, both of which the workers must supply and go short by this amount."

An English paper writes,

> "Money sent out of the country is money lost to the industry of the country."

Mr. J. M. Keynes, the famous economist, has graphically described the results of this payment in words which can be easily applied to Indian conditions and needs. He says,

"It scarcely requires illustrations to bring home

the magnitude of this burden. We shall be paying to the United States each year for sixty years a sum equivalent to two-thirds the cost of our Navy, nearly equal to the State expenditure on Education, more than the total burden of our pre-war debt, more than the total profits of the whole of our mercantile marine and the whole of our mines together. With these sums we could endow and splendidly house every month for sixty years one university, one hospital, one institute of research, etc. etc. With an equal sacrifice over an equal period we could abolish slums and re-house in comfort the half of our population which is now inadequately sheltered."

So then, all these years, our people have been really deprived of their comfort, of greater expenditure on education, sanitation, hospitals, etc., and till this bleeding is stanched, the condition of India's masses will be one of unrelieved gloom. While they set up such whining and squealing even with all their riches, how conscienceless the Englishmen are, in piling up great burdens on India like increased interest charges and War Office payments with the egregious Lee Commission bringing up the rear?

To sum up, we are now paying Rs. 45 crores

on Home Charges instead of Rs. 14 to Rs. 20 crores and when the Blackett scheme of redemption of debt comes into operation, we will be paying Rs. 2 to Rs. 3 crores more.

V

Till now, we have dealt with loans and interest charges as between India and England. Coming to the total debt services, they reveal a parlous state of things after 1919-20. Sir Basil Blackett and the Inchcape Committee compare the total debt at present with that of 1913-14 and attribute part of the growth of the unproductive debt to the war contribution and part to the deficits. India does not grudge this £100 millions and her financial position was so strong that this sat very lightly on her. Our difficulties did not at all arise with that gift. We therefore take our stand from the year 1919–20. To pay up this contribution, the rate of interest for internal loans was 5½% in 1917 and 1918 and it actually decreased to 5% in 1919.

The rot set in after the Reverse Councils sales hopelessly despoiled the country of its resources and monetary strength, and one of the results was the gift of Mr. Hailey to India of 125⅓ crores of 6% loans in three years, 1920–22.

The following table gives a true idea of the "great burden on the tax-payer" as the Inchcape Committee put it.

Year.	1919-20.	1924-25 (Budget.)
Sterling debt	Millions £192·6	Millions £279
(all figures below are in crores of Rs.)		
or in Rs.	288·9	419·2
Rupee debt	376·4	507·3
Total debt ...	665·3	926·5 −665·3
Increase in debt		261·2

Interest charges.

Total ...	30·38	42·6
England ...	12·1	18·0
Unproductive debt ...	14·8	18·32
Railways ...	13·14	19·0
Net interest on ordinary debt after deducting interest receipts ...	6.8	15·15

The figures are subject to any slight modifications, the difficulty being the £1=Rs. 10 rate in 1919-20.

These figures speak for themselves. In 1919-20, the Afghan War was over. There was no excuse of war to plead in the later years. This is in strong contrast with the policy adopted in England. Mr. Philip Snowden, the Chancellor of the Exchequer in England, in the course of his budget speech in the House of Commons, said,

> "The total debt reduction, external and internal since December 1919 was over 650 millions or practically the amount of the National Debt at the outbreak of the war. (Cheers.) That was a wonderful and most creditable national achievement. (Cheers.) Moreover large debts were owing to us. (Loud cheers.)"

He also added that the interest charges have been reduced by 40 millions. Is there anything which Mr. Hailey did or even Sir Basil Blackett is doing that we can recall with pleasure and that a Legislature would welcome with cheers? Our finances have been managed in a different way. Instead of reduction for which great possibilities presented themselves, the "dead-weight debt" has increased by 261 crores in five years, while the debts owing to us have vanished, or, are in danger of vanishing if the Gold Standard Reserve is operated on in the

same manner. (We shall revert to this later on).

It will be asked what has Reverse Councils to do with increased debt and interest charges which are due to productive expenditure no less than to the deficits of these years? First, taking the interest charges, the direct result of the policy of 1920 was the flight of capital and the high rate for internal loans. If there had not been this bit of Governmental lunacy, the rate of interest should have been 5% or even less than 5%, at about 4½%. On the 125 crores 6% loans, India is paying 1¼ crores annually more than otherwise. Under normal circumstances, the interest rate would have come to 4 and 4½%, and including the recent loans of 5% interest, India is paying 1½ crores more every year. Under sterling loans, the unnecessary high interest due to 7% and 6% loans, which India is paying, will be about a crore. On the whole 2½ crores is wasted on high interest charges. This matter is of special importance in view of the vain boast that Sir Basil Blackett made at the time of Sir Sivaswami Iyer's censure motion on the Alliance Bank affair and of the great play he made on the "consequent reaction of Alliance Bank failure" on "the favourable

conditions in the money market both in London and in India." Sir Blackett then said,

> "The London loan for the Railway purposes was urgent and was to be floated, when offered the most favourable opportunity. After May the bank rate went up from 3 to 4 per cent. and gilt-edged securities were quoted low. If therefore the Alliance Bank failure had precipitated a financial collapse the loan in May would have been postponed and if raised now, it would have cost a crore more than in May. Thus at least a crore had been saved by the Government's action."

He spoke in the vein that this most paternal Government deserved our undying gratitude and that he himself was conscious that a statue would be a fitting reward for his capacity and his solicitude to our behoof. In all humility therefore, may we ask him what he thinks of the 6% and 7% loans, of the increase in total interest charges by 12 crores a year, or if the so-called productive debt is excluded, of the increase of 4 crores of interest on ordinary debt? The increase in the interest on unproductive debt for 1924-25 may be more than by 4 crores as it looks an under-estimate as compared with 1923-24. But, taking the net interest paid on

ordinary debt after deducting interest receipts, we find that it is costing India about 9 crores more each year. Strangely enough, support is given to this deduction in Mr. Hailey's Budget speech in 1921. He has always tried to minimise the losses arising from his policy, but in the very few luminous moments that he allowed himself the luxury of, he accepts certain results. In the Budget speech in 1921, under the heading 'Deterioration of Position', Mr. Hailey says,

> "(i) Loss of interest receipts (owing to the ear-marking of interest on Paper Currency Reserve investments to the discharge of Treasury Bills issued to the Reserve to cover the loss from revaluation of sterling holdings in it).
>
> * * * * *
>
> (iii) Increase in interest charges (while formerly the bulk of our investments of the Paper Currency Reserve was in British Treasury Bills, on which we received interest, the bulk of investments now is in the form of Indian Treasury Bills, the interest on which is ear-marked for a definite purpose.)"

Though the proposal under No. 1 has been kept in abeyance after 1920-21, indirectly the burden caused by the cancellation of Indian Treasury Bills in the Paper Currency Reserve

has fallen on the Indian Revenues—which question will be dealt with presently. The result, however, is all the same and the net interest paid on debt which was 6·8 crores in 1919-20 has gone up to 15·15 crores or by about 9 crores. Just as Sir Blackett claimed that he saved 1 crore on interest charges in the Alliance Bank affair, so also in regard to the sale of 2 millions gold, he claimed that such a step would bring in substantial additions to the Indian revenues. We were told in a *Communique* that "the Government of India see no sound alternative to making such investments in short term securities of the British Government." Sir Basil Blackett enthusiastically stated, during the course of his speech in Bombay in December 1923,

> "First, we convert a non-interest bearing asset into an interest-bearing asset. Second, we increase our sterling assets both by the sale price of gold and by the interest earned on the securities in which it is invested, and so reduce the amount to be remitted to England and *pro-tanto* postpone or avoid the necessity for sterling borrowing."

Is there anything which is more condemnatory of the policy of 1919 and 1920 than the

above and will Sir Basil Blackett tell us what he thinks of the 9 crores additional interest we are paying every year? This loss could have been easily avoided if the policy, he enunciates now, had been then remembered. Why then, did the Government of India first sacrifice the interest receipts from sterling assets and later on have recourse to sterling borrowing and why do they now show such extraordinary and belated solicitude to get interest from sterling investments?

There is one other item under the heading of interest which I shall just mention here, though it may be discussed in a more appropriate place at some length. That is about the interest on the so-called productive debt on Railways. The following figures would show that, in spite of Sir Basil Blackett's gibe at and recognition of, Railways ceasing to be productive, even under his control the Railway machine is running along in the same discredited rut:

In crores of Rs.	1922-23	1924-25 (Budget)		1919-20
Gross Receipts	93·22	97·06	+3·84	79·09
Net Receipts	26·56	29·49	+2·93	31·62
Interest on debt	16·34	19·00	+2·66	13·40

This is to show that the increase in interest on Debt is keeping pace with the increase in net receipts inspite of the large increase in fares and rates and to that extent, the additional debt incurred on Railways is a sheer waste, a mere deadweight debt. It looks then as if they have not heeded the warning given by the Inchcape Committee, and are wasting away much capital on open lines, on schemes of doubtful utility like costly remodelling of station-yards, workshops, etc. The revised estimate for 1923-24 shows a better return than the Budget for 1924-25, but if compared with 1919-20, the deterioration is such that the Railways require more careful looking into.

I am not sure whether we are not in for a period of gamble on Railways just as we had on Currency and Exchange. It is perhaps the turn of Railways, to India's misfortune. Sir Charles Innes and Mr. Hindley are not behaving quite in a way to inspire confidence and to dispel distrust; and Mr. Sim, the Financial Commissioner, is fast degenerating into the Mr. Cook of 1920 and 1921. U. P. seems to be a thriving ground for official casuists and sophists. This new and costly post was not created for this man to jump into notoriety and to show off his

hauteur to perfection. However shallow an Englishman is, in India he is an expert and there is no humility in him.

VI

The deficits during the five years ending 1922-23 have been about Rs. 100 crores and the deficits from 1920-21 have been Rs. 68 crores. This latter is in spite of new taxation levied to the extent of Rs. 42 crores. To what extent these deficits and additional taxation were the aftermath of the Exchange policy of 1920 would defy computation. To make an exact calculation would be too laborious a task even for the most experienced economist or accountant.

Mr. Hailey, in 1920, heroically stated that we are standing up to some present loss arising from Reverse Councils sales, to realise future gains at 2sh. That failed to materialise. In his Budget speech in 1920, he promised us a gain of 30¾ crores at 2sh. 4d. Instead, the average exchange for 1920-21 was less than 1sh. 8d. Not daunted by the course of exchange, he estimated exchange for 1921-22 at 1sh. 8d. But, really, the average rate of exchange fell to the woeful depth of 1sh. 3·8d., a rate less than

any that prevailed during the last 20 years. The result of that bad accounting was that expecting huge gains, the expenditure on Military Services, on Waziristan and on Railways was vastly increased. But when the expected gains turned into a sure loss, the deficits were met by loans, Treasury Bills and increased taxation. Part of the deficits was due to the increase in interest charges which could have been avoided.

Here, I would like to ask one simple question of our rulers. By 1920 end, their exchange policy failed and they themselves admitted the failure and mistake and assured the Chambers of Commerce that the natural causes were proving too strong for them. If they had the slightest modicum of honesty, would they not have begun economising and cutting short their unnecessary commitments even in March 1921, instead of being forced by the Inchcape Committee in March 1923? Mr. Hailey should have put on sack-cloth and ashes instead of making that bravado Budget speech in 1921, should have resigned his post immediately or, if he had been a man of 'sense and sensibility', he should have gone to England and personally implored the War Office and India Office to

spare India from further burdens. In 1924, Sir Malcolm Hailey, as Home Member, went to England and it is stated, he was canvassing in the Houses of Parliament for the support of the Government of India's position. That sort of mission, he should have undertaken in 1921 itself and should have fallen even on bended knees before the Home authorities imploring them not to dictate or force on India costly schemes and policies. He should have represented to them that the Exchange policy had ruined India's financial strength considerably and since they were themselves the instigators, they should hold up their hands in other directions. Besides, the previous year's Afghan War alone left us with a deficit of 23 crores, not to speak of the increased army expenditure of £8 millions or 12 crores in 1919-20. Neglect of obvious duty in this direction has entailed on India a loss of 30 crores in Waziristan operations alone.

My statement that a simultaneous attack was aimed at India from all sides like Mackensen's on Rumania is not certainly an exaggeration. I repeat that if they had left the exchange alone, it would have been all these years at about 1sh. 8d. and there would have

been fewer deficits and lesser taxation. Sir Basil Blackett in his Budget speech, 1923, said,

> "Of the deficit for 1922-23, 5½ crores would have been saved, had exchange been at 1sh. 6d. and 9½ crores if it had been at 1sh. 8d."

This quotation is to show what we have lost by unnecessary and untimely meddling; but that would be no reason for raising the exchange hereafter.

Now that the budget begins to balance after almost reaching the limits of taxation, they have no thought of reducing the burden on the taxpayer; but the country has been committed to further liabilities in the way of increased salaries and allowances,--which it would not have grudged under happier and under more honest conditions.

From the above, which can of course be amplified to justify us still further in our conclusions, it will be seen that the deficits and the unproductive loans are mostly due to Governmental action. But, from the wreck there is luckily a good portion which can be salvaged. And, to that extent at least, the return to the ratio of 1sh. 4d. in the Paper Currency Act, should be welcomed. An official memorandum

almost supports us and gives us hope in the following words:—

> "The loss resulting from the revaluation of gold and sterling securities in the Paper Currency Reserve should be regarded as real except to the extent* to which there is an appreciation in the value of these holdings on the restoration of the old ratio of Rs. 15 per £."

Here, at least, is a method by which the Government can undo the wrong in some slight measure. In the name of reducing created securities—on the basis of which notes have been issued—from 62 crores in 1920-21 to 49 crores this year, a great burden has been inflicted on the people to the tune of 13 crores. When under the Paper Currency Act of September 1920, they had to revalue the gold and sterling securities at Rs. 10 per £, either they had to withdraw 18 crores of notes immediately or they had to issue their own Treasury Bills as a backing, about 18 crores being the difference in revaluation from Rs. 15 per £ to Rs. 10 per £. Once in a way, they chose the wise course but tacked on to it the rather unnecessary condition that these

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* I quote it as it is in the print, though a slip modifying it slightly is attached to it in type-written form.

Treasury Bills or mere I. O. U.'s should be extinguished from the interest derived from the Paper Currency Reserve and Gold Standard Reserve or from ordinary revenues and loans. They have up to now reduced these I. O. U.'s by about 13 crores and this was effected first by means of the Paper Currency Reserve and Gold Standard Reserve interests and later on, even by using ordinary loans. In pursuing this will o' the wisp, 13 crores have been taken away from the people and used for a fruitless purpose called deflation.

Thank God, good sense prevailed in 1922 owing to the persuasion of Sir Montagu Webb and the interests from Paper Currency Reserve and Gold Standard Reserve are being used for revenue purposes instead of a suicidal policy of deflation. It is the only bright spot—absolutely the only one—in the whole financial nightmare that gripped us and even here too, Mr. Hailey had to be coerced as he called this act of using interest rightly for revenue purposes and thus relieving the burden on the taxpayer, as "an act of spoliation." This remark came with very bad grace from him. He was smitten with deflation-bubo. This utilization of the excess of £40 millions of the Gold Standard Reserve

for revenue purposes should be used *ever* unless another jugglery sends it in the wake of the £55 millions Paper Currency Reserve. That this is also contemplated and is in a nebulous stage will be clear from the previous Budget speeches. This danger must be averted. As for Paper Currency Reserve interest, it is only a fictitious entry under revenue and expenditure, a paper transaction swelling both revenue and expenditure totals. Here, again, in the name of deflation or cancelling created securities, at no time should the interest be used as it would mean a self-imposed liability or additional taxation on the people.

To sum up, 13 crores have been wasted on pointless deflation, what should have gone towards the relief of the taxpayer and this amount is part of the deficits or the unproductive debt of the last few years. Now the result of the amendment of the Paper Currency Act to the old ratio of Rs. 15 per sovereign would be that it would release notes to the value of 18 crores—which would be called by some as inflation. At present £22 millions gold and £14 millions sterling securities cover notes to the extent 36 crores at Rs. 10 per £. With the ratio at Rs. 15 per £, the gold and securities

would back up notes to the value of 54 crores, thus enabling Government to release 18 crores of notes more. This should not be used to cancel still more the I. O. U.'s; but, at least to the extent of 13 crores, notes should be issued and this 13 crores should be used to pay off a portion of the unproductive debt. Compared with other countries, 62 crores of created securities in the Paper Currency Reserve will be no inflation and, if there be any doubt about it, this inflation should be first effected and its result on exchange should be watched. Would the rupee depreciate in terms of sterling, would it cost Rs. 16 or 17 to purchase £1? That is the only test. If exchange under normal circumstances does not go below Rs. 15 per sterling pound, then the Indian Treasury Bills or the I. O. U.'s can be left untouched at 62 crores or so, and it need not cause any alarm. I am surprised that this immediate result of the proposed amendment has not been noticed at all in the various discussions on Currency and Exchange.

Personally, I would suggest exchange at 1sh. 4d. gold only for the sake of releasing these 13 crores to wipe off the previous debt incurred in deflating this amount. There should be no obligation to support exchange at 1sh. 4d. gold, i.e.,

above 1sh. 4d. sterling, but exchange may be supported if it falls below 1sh. 4d. sterling. The exchange at 1sh. 4d. gold should be operative only to sell Council Bills, to issue rupees in exchange for gold if exchange rises to 1sh. 4d. gold owing to natural causes. This carries with it as a corollary that at no time should the interest on Paper Currency Reserve and Gold Standard Reserve be used to extinguish created securities, but they should be used only for revenue purposes. The Gold Standard Reserve may be used to support exchange at 1sh. 4d. sterling, or, what would be more beneficial, the whole Reserve should be transferred in the form of gold to India, purchased in the world's market and not in the mischievously contemplated method of simply transferring Paper Currency Reserve gold to the Indian branch of the Gold Standard Reserve. Most of the above remarks may be quite out of place under this section, but since this has some bearing on the accumulated deficit and debt and since this opens a field of lessening the debt by about 13 crores at least, and of releasing for revenue purposes Paper Currency Reserve interest and Gold Standard Reserve interest for indefinite length of time, it has been discussed here. Of course,

this deserves to be dealt with in detail under currency and exchange.

VII

Into what ramifications, this one act of the Government has led the country! To follow them up really beats one's brain or patience. The reader might perhaps be tired of the conjuring up of the details of what might have been. It is no doubt a fruitless task under the present circumstances. But certain ramifications must be explored, if not all. In this self-imposed task, there is but one measure of hope. The Grand Recorder of the Universe would have registered even to the millionth of a farthing or His chief instrument, the Law of Nemesis.

Generally, there is one sure test of the soundness of the financial management of a country and that is, the price of what is called gilt-edged securities or Government Paper. Sir Basil Blackett in his Budget speech, in March 1924, under the section of 'End of a bad era,' says,

"The improvement in our position is happily

reflected in the improved market price of all our rupee securities. On the 15th February 1923, the 5 per cent. tax free loan 1945—55 was quoted at 88·10; on the 15th February 1924, it was quoted at Rs. 98. The quotation for the 5 per cent. loan 1929—47 has risen in the same period from Rs. 82·10 to Rs. 93·2. In 1923 we were able for the first time since 1919 to raise money by a long term issue, and the improved quotations which I have mentioned give us good reason to hope that we may do even better in 1924-25."

In his speech in the House of Commons, in June 1923, Earl Winterton gave instances of the benefits of a balanced budget and he adduced the improvement in Government securities as an instance. He claimed that,

"In February of this year 3½ per cent. rupee paper was 57, and it has risen to 65¼, or a rise of 14 per cent."

I searched in vain for any such encouraging and reassuring remarks in Mr. Hailey's three Budget speeches and the significant omission was due perhaps to the fact that any such reference would be an act of self-condemnation and that, more than anything else, it would reveal the tragedy of his venture. It is to be

doubted whether Mr. Hailey as Finance Member ever read the weekly trade and market reports or even the commercial columns of newspapers and trade journals. It was our profound misfortune to have had as Finance Member a man whose eyes were not glued to the barometer of the daily and weekly money market.

Now, let us see with what result. The 3½% rupee paper was at 65 in 1918 and as soon as the war ended, it rose up with a spurt to 81 in December 1918. But slowly it fell down to 71 in 1919 and showed a disposition to remain at that figure. But when the remitters nosed the high exchange and the possibility of Government coming to their help, they began to unload their holdings in Government securities and the result was that in the year 1919, the 3½% rupee paper fell from 71 to 62. After capital was forced out of India and money was made dear, it fell in 1920 from 60 to 52, the lowest figure ever recorded. After 1920, the 3½% paper has had a painful career of ups and downs slowly rising from 52 to 55, 62 and again falling until at last, it is to-day at 67, a price even less than that of 1919. Let any man of common sense examine and say what cataclysm, what catastrophe has

occurred to India that our rupee paper which remained almost steady during the latter period of the war and even rose in value after the war was over, should have gone down so low after 1919. Likewise also, the 5% loan which was issued at 95 in 1919, came down to 90 in nine months and fell to as low as 77 and 78 in 1920-21 and 1921-22. The result was a great decrease in National wealth. Our position will be more clear if we take two typical extracts of how they calculate the growth of wealth in England. In March 1922, a cable stated,

> "War Loan Stock has reached the record of 98¼ as compared with 89½ in January 1921, an appreciation in fifteen months of £ 340,000,000."

To give another example, a City (London) correspondent wrote in 1923,

> "Ten representative British and Indian Government stocks increased their aggregate value between July 18th and August 20th by over £46 millions or by 1·4 per cent."

I can easily give hundreds of such careful records of the growth or otherwise of their national wealth in England, weekly, monthly and yearly.

Judged by this standard, while in England there was appreciation in national wealth, at

the same time, the reverse was taking place in India. In 1919-20 our total internal debt was about 350 crores and the paid-up capital of companies was about 200 crores, including debentures. From 1919 to 1922, the fall in the value of securities had been by about 25%. So that on the 550 crores of holdings, the people had lost about 125 crores. If we judge from the market value of the companies' capital and debentures, the loss would be about Rs. 200 crores.

In other words, the country's wealth had depreciated. This was due to the 6% loans and the scarcity of money. The Bombay Government added their own quota to our troubles when they raised the 6½% loan in September, 1920. The *Capital* wrote adverting to this,

> "The policy of continually raising the rate of interest for every new loan floated is having a most detrimental effect and is beginning to scare investors out of the market."

> "The market for Government securities has been steadily falling away owing to the new Bombay loan and the probability of a 7% Municipal loan to follow. There is scarcely any business passing, investors concluding that to invest in Government loans means almost certain partial loss of capital,"

The Calcutta Committee on the rehabilitation of securities strongly criticised the action of the Bombay Government and stated,

> "The issue of 6½% loan of the Bombay Government makes the old and new stock-holders frightened to invest their money."

Apparently, the Bombay Government led by a self-willed and obstinate man, did not like to leave the monopoly of all such escapades to the Olympians at Simla but wanted to do its own little bit to India's undoing. What hateful enemies of India come to hold such posts as Governors and Finance and Commerce Members, receiving fat pay—a species of ill-gotten wealth—and doing no little disservice to the country, and after going 'Home' posing as an expert, everlasting! This remark does not apply to those honest Conservatives who hold that India is not fit for absolute Self-Government but who have a very high and honourable conception of their duties to India. Even Sir David Barbour, the veteran Ex-Finance Member was constrained to remark in September 1921,

> "I have no hesitation in saying that the management of Indian Finance gives ground for much more anxiety in the present day than it has ever done before in my experience and my

direct experience of Indian Finance began very nearly half a century ago." * * *

"A very large amount of money is required to carry out new work than would formerly have been the case * * and add to it the rate of interest twice as high as 7% instead of the old 3%. It makes a great difference whether you pay 7% or 3½% for the capital you require as it would mean more cost."

It is therefore in consonance with their fatuity that the Bombay Government opposed the selection of an expert to the Taxation Committee but recommended a 'Binomial Theorem' in his stead. Sir Basil Blackett ought to have known the Bombay Government should be the last body to be consulted on such a matter or to whose views any deference should be paid.

Under this section, might be included the losses that have accrued to companies by the high Bank rate of 7 to 9 and even 10%. How many companies have gone to the wall and how many infant industries have been killed we have no means of fully knowing. Even the Tatas complained that the rate of interest for working capital which was formerly 5 and 5½% had now gone up to 8%. We read of companies which were formerly issuing deben-

tures at 6%, now being driven to issue debentures of 8 to 10%. It means less income to the shareholders and a consequent decease in the income tax to be paid to the Government. Thus a vicious circle is created.

The reader might ask how all that have been written, came about. It can be briefly stated here, that they were due, first, to the flight of capital and, secondly, to the sudden deflation of 40 crores of rupees in 1920 and 20 or 30 crores of deflation in later years.

VIII

Now, let us turn into another direction in which the full force of the artificial rise in exchange, devoutly wished for by Mr. Ainscough, was felt and the loss arising from which has directly hit the very large body of merchants and traders. That is the enormous excess of imports over exports. This naturally resulted in the dissipation of national wealth as even admitted in official reports. The following figures would show how the trade situation developed after 1919-20, adversely to India and beneficially to England in particular :—

Year	Total (Crores of Rs.) Exports	Imports	Trade with England (Millions of £) Exports	Imports
1913-14	249	183+ 66	39	78− 39
1918-19	253	169+ 84	48	51− 3
1919-20	327	208+119	97	105− 8
1920-21	257	336− 79	56	205−149
1921-22	245	266− 21	33	100− 67

Usually, exports from India are more than her imports and she being a debtor country and having further to pay in the shape of Home charges, the excess of exports must be maintained, if she is not to be come more involved in debt. This aspect was clean forgotten by Mr. Hailey when his action led to a bonus of not only 25 per cent. as expected by Mr. Ainscough but even a bonus of 100 per cent., for imports. As in other respects, a belated recognition was made on the necessity for a trade balance on the right side and Mr. McWatters stated,

> "A favourable balance of trade is an important change in the right direction, especially for a country like India which has large external liabilities."

When as a result of high exchange and the false hope given by the Government of a permanently high rate of exchange, large orders

In trade with England, the figures for 1919-20 and 1920-21 have been converted at 10 Rs. = £ 1.

were placed abroad, in one year, the favourable balance of 119 crores in 1919–20 was converted into an adverse balance of 79 crores for 1920–21. So far as the Government was concerned, to finance the Home Charges by Council Bills became impossible in 1921 and 1922, and the Government was forced to incur huge loans to meet them "as the Home Charges do not go to sleep", in years of adverse balance of trade and of manipulated exchanges, as the *Bombay Chronicle* put it. Never in the history of India was there such a scandal as that of incurring huge debts to meet Home Charges unless we go for a parallel to the dark days of the East India Company when in the years of depression, dividends were regularly paid to the stock-holders of the East India Company with loans raised, still further mortgaging the revenues of India. The Government descended for a time to the lowest depth of a heartless spendthrift having numerous dependants, who incurs further debts at compound interest to pay off old ones.

So far as its effect on national wealth was concerned, it is enough if we allow the Trade Reviews and Mr. Ainscough's reports speak for themselves. The Trade Review of 1920-21, says,

"To what extent does this adverse balance of 1920-21 imply a dissipation of financial strength? The question is not easy to answer. It has already been explained that the bulk of the imports during the year represented the execution, on a falling rupee, of orders placed when exchange was high. But although each such order represented a loss in view of the steady fall both of exchange and prices, and the consequent locking-up of capital (to higher amounts than had been earmarked at the time the orders were placed) in stocks which might never return even the expenditure originally estimated, India's financial resources as a whole had emerged successfully from the war and she was better able to face the prospective loss than she would have been eight or ten years earlier." * * *

"Thus the year 1920-21, which has apparently opened well, closed in a state of serious depression which at the time of writing, has become stagnation in many lines of trade. In all the circumstances, failures of individual firms have been surprisingly few—additional evidence of resources built up during the war." (Failures had occurred on a large scale after the report was written.)

The serious losses with which the importers were faced owing to the fall in exchange have been graphically described by Mr. Ainscough himself. He says in his report for 1920-21, under the heading 'Economic Depression',

> "In the meantime, the enormous volume of high-priced goods ordered at various times since the Armistice arrived at Indian ports in unprecedented quantities, the gross total value of the imports during the year being actually double the average of the five preceding years. This flood of imports coinciding with a slump in the export trade resulted in an excess of imports of merchandise of 79 crores. * *
>
> Importers were consequently faced in most cases with extraordinarily heavy stocks of piece goods, metals, hardware and general imports purchased at the top of the Home market at a time when exchange was in the region of 2sh. and over and these goods arrived to a stagnant market with exchange standing at about 1sh. 3d. or 1sh. 4d. In most cases, importers and dealers were either not able to or were unwilling to fix exchange at the time of placing the order, with the result that they had to meet losses varying from 50 to 70 per

cent. on the cost price of the goods. Moreover, in as much as the prices in the producing centres had fallen considerably, there was the additional menace of their being undersold by more recent purchases. Seeing that they were obliged to face losses which in many cases they were utterly unable to meet, the Indian importers, in Bombay, Delhi and elsewhere, sought for a means of escape."

This last remark is in reference to the demand for settlement at 2sh. or for repudiation of drafts. The imports which used to be only about 180 crores, reached the enormous total of 336 crores, and of this sum only 30 crores were left overdue pending settlement at 2sh. rate. They were not satisfied with the settlement of 300 crores of imports but straightaway began to charge Indians with lack of commercial morality. In this game, Mr. Hailey the author and fountain source of all this mischief, most unabashedly joined, instead of hiding his diminished head in shame and instead of realising the "menace" of the huge losses they were put to.

But Mr. Ainscough, prudent and able as he has shown himself to be—wish the I.C.S. could produce such a man—took a more charitable

view on the results of the enormous inflow of foreign goods and the ruinous prices at which they were moving. He wrote,

> "The losses to be liquidated, however, are so heavy that it is only to be expected that there will be a residuum of dealers utterly unable or unwilling to meet their commitments. It is possible therefore that we may see a number of failures towards the close of the year."

The lie to the charge that Indian dealers were shirking payment due to pure cussedness and not to sheer inability has been given in an official report itself. The Income-tax report of Bombay has the following :—

> "The sudden and rapid fall in exchange about the beginning of the accounting period for the year 1922-23 involved the majority of the importing firms in heavy losses. Dealers in piece-goods and hardware in particular suffered considerably and the revenue collected from them showed a corresponding decrease."

Part of the troubles arose on account of our own countrymen. When, to her precedented gain, Lancashire doubled and trebled her exports, major portion of that was no doubt stimulated by the cupidity and stupidity of our huge army of retail dealers—a brood of not

unmixed blessing to India. Here, it may be pointed out that if it were not for the wholesale and retail dealers in India whose number is legion and who have penetrated every village, Lancashire and other foreign suppliers can never have half the custom they have at present; and Lancashire showed real ingratitude when it charged the Indian dealers with commercial immorality or dishonesty when the latter were not able to take delivery of the goods due to their very high price at a low exchange. After 1920–21, there was a rapid decline in all imports. This was not a case of vaulting greed that overleapt itself. The vaulting greed is always there; Lancashire and other parasites on India knew that if once they got a good foot-hold under the support of high exchange in India, their position would become safely entrenched against all indigenous competition.

So far as England was concerned, the result was as was expected by Mr. Ainscough and as was planned by the vested interests in England. The Trade Review of 1919-20 contains the following extraordinary statement :—

> "The most satisfactory feature of the year's trade is the strong recovery made by the

United Kingdom. Competitors crept into the market while her manufacturers were preoccupied with more vitally important matters, but they have not been permitted to consolidate the positions they won during the artificial conditions created by the war. Imports from the U. K. were valued at Rs. 105 crores an increase of 36% over 1918-19, though still 11% less than in the pre-war year 1913-14. By far, the largest item of the imports is cotton manufactures in which Lancashire holds a commanding position. The value of these cotton manufactures amounted to Rs. 51 crores or 48% of the total imports from U. K. as against 42 crores or 55% in the preceding year and 60 crores or 51% in 1913—14."

It passes one's understanding why a trade report of India should express itself in the above manner. Such a language is befitting Mr. Ainscough's reports. Will we be wrong if we hold that the Finance and Commerce Departments seem to think as if their salaries have been placed on the British Estimates and they are only branch offices in India for the interests of the city of London and that they are here as conduits for the drain of India's wealth into England?

And in 1920-21, the value of imports from England was doubled and what was only £51 millions in 1918-19, and £105 millions in 1919-20, increased to £205 millions in 1920—21, quite an enormous sum beyond the capacity of India to bear or to digest.

Already, attention has been drawn to the first report of Mr. Ainscough as affording a clue to the recommendations of the Babington Smith Committee. No wonder that in subsequent reports, he reviews the outcome with pardonable satisfaction and patriotic ardour. He writes,

> "The rise in exchange considerably enhanced this purchasing power. The natural result was that orders on a prodigious scale were placed in the U. K., U. S. A., Japan and other countries."

* * *

> "The high exchange, however, synchronising with an unprecedented volume of demand for imports which had accumulated, both during and immediately after the war, resulted in the purchase of enormous quantities of manufactured goods in the U. K., U. S. A., and elsewhere."

* * *

"The recovery made by the United Kingdom has been most remarkable. Her share of the total trade is now 44 per cent, that is 3 per cent., above the pre-war figure. Her share of India's imports has increased from 46 per cent. in 1918-19, the lowest proportion touched during the war, to 61 per cent. in 1919–20 and is now only 3 per cent. less than in 1913-14. In 1920-21 the United Kingdom shipped to India no less than £204,000,000 worth of goods of which about 95 per cent. represented manufactured articles. During the past year cotton yarn, piece-goods and other manufactures of cotton accounted for 40 per cent. iron and steel 10 per cent., machinery 8½ per cent., railway rolling stock and plant 6 per cent., and the balance covered a very wide range of manufactured goods. * * *. Under almost every heading of trade, the United Kingdom recovered her position during the past year. The satisfaction with which one surveys this recovery is, it is true, clouded by the contemplation of the very heavy stocks in this market. Nevertheless, the stocks of foreign competing goods are just as heavy, and the really encouraging feature of the situation is that, for the first time since the war, British

shippers have been on equal terms with their new foreign competitors and have recovered their trade to such an extent that they are now within 3 per cent. of their pre-war position."

Englishmen began to congratulate themselves that the manipulation of exchange to their benefit resulted in "the great volume of accumulated orders liquidated last year by the heaviest shipment ever made by the United Kingdom to India amounting in the aggregate to no less than £204,000,000." No wonder, as the favourable balance of trade to England which used to be only £30 or 35 millions just to cover the Home charges and which was only £8 millions in 1919-20, reached the gigantic total of £150 millions in 1920-21 and £67 millions in 1921-22. To that extent, India parted with her wealth to England, and dissipated her war-time savings and the latter benefitted by this dumping over India of about £150 millions more of goods, which was a record by itself.

The consequences of all this have been two-fold. One is the disastrous effect on infant industries in India. Here, again, we shall quote the unimpeachable authority of Mr. Ainscough. He writes in his later report,

"The increase in the imports of manufactured

goods at relatively low rupee prices, due to the exchange, has forced a few industries which were floated during the war * * to reduce their prices to an unworkable level and many of them are already in financial difficulties."

And whatever industries escaped the blighting effect of low-priced foreign goods are now being ground down between the upper and nether millstones, of financial stringency, high income-tax and super-tax and high Bank-rate on the one hand, and of increased railway rates, on the other. Apparently, in this cannibalistic process, Sir Charles Innes and Mr. Hindley do not like to be left far behind Mr. Hailey, (of 1920 fame).

The other is the enormous losses which the merchants had to incur, to which reference has already been made. Here, its effect on national wealth is considered. The Currency and Trade Reports for 1920–21 are ominously silent as to how the adverse balance was met and how the exporters in England and other countries were satisfied. Part of it was no doubt met by the export of gold and silver from India. The real explanation lies in the fact that enormous capital found its way into India from England, as exchange was favorable in 1921 and 1922. A

major portion of it was that brought back by the remitters or beneficiaries of the 'organised loot' themselves, thus meeting the exporters' bills in London. The 'considerable profits amassed by the Indian merchants'—as if English merchants did not amass vast profits during the war in India—proved an eyesore and these people were given the consolation "they could meet the prospective loss." Oh Indians, who are you to accumulate riches when we were otherwise engaged? now disgorge them, that seems to have been the prevalent feeling. To meet these liabilities—other than the cases of total failures or insolvencies—Indian merchants must have parted with stocks, shares and holdings both in Government and Industrial securities and these must have been snapped up by those who transferred and retransferred their funds to India. The Englishmen's profits were safely remitted to England with Government help and that too, with some more gain in the process; the Indian merchants' profits were also swept into the former's maw when disaster overtook the latter. Oh! the unmatcheable ingenuity behind it all!

Careful readers of financial journals must have noticed that both in 1921 and 1922, English-

men were asked and encouraged to buy rupee securities and a strenuous agitation was kept up to that purpose—not daunted by the non-co-operation movement, though this fear was hypocritically conjured up for the 7% loan. Before 1920, it was estimated that half of the Government debt was held by Indians and half by foreigners. Likewise in shares, at least one third must be by the latter. And if a compulsory examination is made of the Government Loans register, of the Share register of all Companies and of Bank deposits and if a comparison for the years 1919 and 1923 is made, it will be found that, barring the loans and capital raised between 1920 and 1923, at least 50 crores worth of holdings would have been surrendered by Indians into foreigners' hands. To that extent, the inexorable and remorseless grip of the foreign bondholder has tightened itself still further and Indians have lost 50 crores and thus lost valuable ground in their own country. What a lot of wealth must have been transferred from the Nationals' hands into the aliens' in the most insidious manner possible! Let anybody disprove it, especially Sir Basil Blackett who fights shy of all demands and requests for enquiring into the Indians'

position in their own household. So then, the transparent honesty with which he is credited by some, develops cold feet and oozes down.

One other result must have emanated from all this. Since Indian merchants suffered huge losses, their credit had sunk. Not only had they to part with previous profits and holdings, but in most cases they had to wind up or curtail their share in the import and export trade of the country. Mr. Ainscough is nothing, if not thorough, and in his all-comprehensive reports —he is such a fearful grabber and whole-hogger—has advocated that English merchants should try to acquire a large share in the wholesale import and export trade of the country. We may therefore take it that European firms and merchants have displaced Indians even in what little share they had in the wholesale import and export business of their own country. That means less earning power to Indians, less profits made by Indians. With that flair for impartiality which Sir Basil Blackett affects so much, he refuses to make enquiries as to how many of the Income-tax assessees, are Indians and how many, Europeans and as to how much, each pay into the public exchequer. Such an attitude is hardly becoming a man who

comes from a country where, to the politicians and Treasury officials, statistics are the very breath of their nostrils. Besides, it is utterly inconsistent with the Statistics Bill now proposed. If, in addition to the Income-tax position, an enquiry is made as to how much of the Bank deposits and Rupee loans is held by Indians, that would reveal their true position and as to how far they have deteriorated since 1919. Such an enquiry is essential in view of the astounding statement of the ex-Governor of Bombay that India has grown vastly richer, though he contributed his share to the impoverishment of India.

IX

'Give a dog a bad name and hang it.' This hackneyed saying comes to our mind when we think of the Englishman's complaints against India, some of which have reached the dignity of veritable and hoary superstitions. One of them is, 'India is the sink of precious metals'. There may be some little truth in it. Though India has been the absorber of precious metals since the days of Pliny, still she remains one of the poorest countries in the world. This aspect

apart, the above-mentioned superstition has been worked to such outrageous lengths that India has been deprived of the gold that was even justly due to her. This was a perennial source of grievance against England before the war, though India could then get whatever gold she wanted for non-monetary purposes. Due to the exigencies and dire necessities of the world war, every nation conserved its stock of gold and embargoed all exports of gold. Even then, India with her large balance of trade would have drawn upon the world's gold supply; but to help England to win the war, India accepted all the restrictions placed upon her by English financiers, in the most loyal and cheerful spirit. Indeed, during these five years, there was not the slightest whisper of protest against the imposition of such a policy. But the melancholy part of it is, this docility was taken undue advantage of and she was rewarded with rank ingratitude as in other respects.

As soon as the war ended, the market for gold became more or less free from all restrictions and all the countries began to settle their balance of trade by imports and exports of gold with the one exception of India. She was held down as ever at the dictates of the City of

London and the result was that instead of recouping at least that quantity of gold which she denied herself all these years, an attempt was made to pinch the little gold she began to acquire. The following figures would prove what we set out to explain, about gold imports and exports:—

Crores of Rs.

Year.	Fav. Bal. of Trade.	Imports.	Exports.	Net Imports.
1909-14 Average	78	32·79	4·64	28·15
1914-19 Average	75	12·14	4·26	7·88
1919-20	122	48·25	12·92	35·33 (16·33)
1920-21	−79	23·57	21·46	2·11
1921-22	−21	13·82	16·68	−2·86

Here one fact may be stated, that out of the 35 crores of net imports of gold in 1919-20, about 19 crores belonged to the Government and went to the Paper Currency Gold Reserve which increased from 17 to 36 crores. So then, the net private imports for 1919–20 amounted only to 16·33 crores as given in brackets.

Certain inferences lie on the very surface. The amount of gold which India had to forego

in the war years was about 100 crores. This was primarily responsible for the great inflation of currency and credit, for the huge growth of silver coins and currency notes and for the rise in prices. As the Currency Committee sententiously remarked " the dearth of gold created a strong demand for silver." Like all other observations of that Committee of astute benefactors, this is but a half-truth. We were forced to accept silver with the promise that 80 crores of sterling investments would be released in the form of gold. When the time came to redeem the promise to pay, and as we have already proved, England joined the glorious band of defaulting debtor nations—the product of the after-war era—though she would never own it. The immediate results of that denial of gold were the rise in the price of silver against India herself—a self-imposed disability—the rise in exchange, the Babington Smith Committee and the temptation to utilise the rise in exchange in all possible ways to the benefit of England.

But from 1919, there was no need to pursue the same policy of denying gold to India, unless we go to the clue afforded by Mr. Moreton Frewen. Why should they still go

on immersing India in vaults of silver and allow her only 16 crores of gold in spite of her 122 crores of favourable balance of trade in 1919-20? In the two later years, this country which was called the sink of precious metals, exported as much as she imported and India made no addition in these two years. All the time, quite the opposite policy prevailed in England. The Cunliffe Committee recommended the conservation of capital and the accumulation of 150 millions of gold in the Bank of England reserve. These are the two precautions which were taken in England after the war and to achieve these objects, the Bank of England rate was raised to 7% in 1919-20 and 1920-21. The Bank of England gold reserve rose as follows (in round numbers):—

Sep. 1918.	Sep. 1919.	Sep. 1920.
£68,000,000.	£88,000,000.	£123,000,000.

That is, in two years, the Bank of England reserve increased by more than £55 millions, or 82 crores, not to speak of imports of gold for non-monetary purposes.

It will be said that for the last two years, India has been importing large quantities of gold unhampered by any restrictions. Our

chief cause for complaint, in 1919, arose more from the point of view of exchange than with a desire to hoard ingots of gold. Indeed, the alternative suggestion was made that if it was against England's interests to allow India to disturb the gold market, at least India's securities in London could have been mobilised and placed at the disposal of its natural owners. But this would be against their policy of eternal exploitation, of draining India's life blood to their advantage. Even the Bengal Chamber, annoyed by the constant rises in exchange, wrote in a strong memorandum as early as July 1919 as follows :—

> "The extent to which India should use gold, must in our opinion, be decided solely in accordance with India's own needs and wishes. * * * What the Chamber now urge is that the right of India to free importation of both gold and silver should be recognised."

The Exchange Banks also suggested that if only the Government were to raise the acquisition rate of gold, more gold would pour in and thus the exchange situation would be eased. Sir J. Jeejeebhoy, representing Indian Commercial opinion, demanded that India as a creditor country must be allowed to draw the gold and

silver she wanted and that the Ordinance prohibiting imports of gold should be revoked. All this fell on deaf ears as it would have interfered with their premeditated policy of manipulating exchange to dizzy heights in 1919 and 1920—with the results portrayed before. Curiously enough, in December 1920, when it was too late, the Government of India in a *Communique* stated they accepted the views of the Bengal Chamber and fully endorsed their suggestion about the right of India to import gold.

I would not have pursued this rather unimportant matter at this length but for the fact that this sinister policy has again raised up its head in the recent sale of £2 millions gold from the Paper Currency Reserve. Except Germany which parted with £45 millions gold to pay for sheer foodstuffs in her miserable plight in 1919, no other country has used up a penny of gold from its reserve. England's gold reserve of £160 millions of 1920 (both Government's and Bank of England's) is being kept intact or untouched. While, America has increased her monetary gold from £500 millions in 1919 to £1,000 millions or by about £500 millions in five years. Mark this colossal sum. But our Government goes on pinching and

dissipating our only stock of gold reserves of £24 millions or 36 crores, fictitiously called 24 crores. It is a wonder why England is so jealous of India acquiring gold but should take almost an unnatural, fiendish delight in allowing America to hoard on a vast scale. Why should not England allow her own dependency to acquire gold, at least as reserves, if not for private use?

The point is, she is obsessed with the idea of reaching sterling parity with gold, or in other words, exchange at par with dollar. My own guess why they sold £2 millions Indian gold in September 1923 is, that was the time when the £30 millions annual funded debt was remitted to America secretly and India's reserve was used as a pawn to see that sterling does not fall lower than 4·40 or 4·50, as otherwise it would have cost her more to convert this sum in dollars. On India, is to be cast the heavy burden of even supporting sterling-dollar exchange, and this is Machiavellianism, *In Excelsis.*

[If I were an Englishman, I would scorn such underhand and low methods. I would be a Liberal Tariff Reformer and look to Tariff Reform to gain this end. I have been long

wondering at this funny side of English politics where even party principles get 'stand-dardised' as H. G. Wells would say. Why a Conservative should be a Tariff Reformer and why a Liberal or Labourite should not be one, I don't see. You can be a Radical and still be a Tariff Reformer. Instead of coercing India, there are three or four methods by which England can ease her position with America. One is, complete repudiation of debt, euphemistically called, postpone paying the debt. That is now out of the question, though Mr. Lloyd George keeps this flag flying. The second is, prohibit the too much export of capital which keeps sterling low. But then this is also risky as not only against the canons of this nation of shopkeepers and capitalists but without their income on overseas investments this parasitical nation cannot get on. But some slight control would afford a little relief. The third is, don't worry about sterling parity with dollar exchange so long as it does not go below the fairly high rate of 4·50 or 4·40. The fourth is, imagine that the debt to America is £1,200 millions, instead of £1,000 millions and, this additional £ 200 millions, convert into gold and transfer it to England to

back up still more the Bradburys or the Government notes. Let there be no deflation. And England can easily pay up this £200 millions out of her savings. Perhaps this may seem chimerical and I am getting beyond my depth. The fifth is the most important and that which really matters. It is a pity that the McKenna duties have been abolished. On the other hand, the duties should have been stiffened up, especially against luxury imports from America and heavy duties should be levied against luxury imports or imports of goods which can be manufactured within the country. This step is not as a measure of protection for all time, but to give the breathing time or the necessary momentum for England to regain her previous sterling-sovereign parity by correcting the adverse balance as much as possible. When this is accomplished, Cobdenism might well reoccupy its superior place in the Englishman's heart].

All this digression might seem unwarranted and quite out of place. But India has been well caught in the whirl of the international machine of high finance and currency. Even if she can escape it, England is too human or too shrewd—or, shall I say, unscrupulous—

not to drag us along with her. Besides, she, herself, is in a cleft stick or between Scylla and Charybdis with regard to India. If she allows rupee-sterling exchange to go higher than 1sh. 5d. or 1sh. 6d., it will no doubt benefit Lancashire and Birmingham, etc. But then, Indian demand would take the form of gold and gold imports would so increase that not only would exchange fall again to 1sh. 4d. but sterling exchange with dollar would be very adversely affected. I am quite convinced England never wanted a permanent 2sh. rate of exchange in India as it would mean such an intolerable drain of gold to India as Mr. Frewen feared—though, why she should not follow America in this respect, I don't see. I say this in spite of the obsequious pleading of Mr. Hailey in 1920. In his speech in the Legislative Council, in September 1920, he asserted as follows:—

"Could any London merchant, could anybody interested in the London money market, have signed this report if he was actuated by this feeling? Now we have been told not once, but a thousand times, that London grudges India its gold. Could he have signed a report which not only admitted of the free and unrestricted movement of gold to India but

actually wrote down to such an extent that it was bound to create a demand for it far exceeding any that London had so experienced ?"

Apparently, our friend had not turned to bay as in the later years; hence he spoke the above with the tongue in his cheek. This pious remark is all very well in paper. But when was it given effect to? The whole of 1919, there should have been free import of gold; but then the hidden hand prevented it. Even the acquisition rate was not raised and the Government sales did not form a fraction of the needs of India. Leave alone this. As soon as the Currency Committee reported, the first step to take should not have been the sales of Reverse Councils—how, in some detached moments, we laugh at the stark idiocy of the whole thing—but the recommendation of the Currency Committee itself on the 'Import and Export of Gold'. They wrote,

"The provisions regarding the import of gold were avowedly enacted under the stress of war and were only intended to be temporary. It is, in our opinion, desirable that the entry of gold into India should be freed from regulation or control by the Government."

This was perfectly ignored and effect was not given to this recommendation till it was too late; and, instead of lifting up the prohibition, at least simultaneously with the sale of Reverse Councils, in February, 1920, it was kept on till August. Meanwhile, the whole of India went mad over the the supposed cheapness of foreign goods and the whole nation parted with vast stores of accumulated wealth. When the restrictions were removed in August 1920—7 months after the Currency Committee report—what between the locking up of funds in the purchase of foreign goods or Reverse Bills and the tight money market due to active deflation, there was not enough surplus money to import gold. And Englishmen must have laughed in their sleeves, at the turn events were taking place according to 'scheduled time' and 'their own plans,'—to quote these two slogans in the western theatre of the Great War. More than anything else, this must have given satisfaction that India imported a pittance of 16 crores of gold in 1919-20, a miserable 2 crores in 1920-21 and even disgorged 3 crores in the next year.

I am much grieved to write all this, for I honestly subscribe to the view that India

wastefully hoards, melts, buries the gold she lays her hands on. The only corrective to it is, more banks, more cheques and deposits, more wealth in the form of shares, securities and stock in a buoyant market. But the Government undermined the foundation on which these could be built, by their high interest loans, by undue deflation and by a high Bank rate. How can any one boldly broach this point of view to the people, that too much gold hoarding is wasteful when they have already lost 200 or 300 crores on shares and securities? They would prefer this 'non-interest bearing asset' to an asset whose value contracts and deteriorates—in no small measure due to Governmental action. I can mention a case in which a gentleman was persuaded to invest a decent sum in a steadily interest-paying industrial security which has fallen in value by 25 or 30 per cent. in sympathy with gilt-edged securities and irrational money market. He is blaming his advisers, as, otherwise, half of that amount would have gone to the purchase of gold, half to money-lending. He is holding on, hoping against hope to get back its old price. Everybody must have known of hundreds and thousands of cases of middle class-

men, of even poor clerks investing largely in the boom period, but who have burnt their fingers. No wonder, that imports are increasing these two years, gold resuming its old place as a form of wealth.

The remedy is partly in the hands of the Government and partly of the people. While, on the one hand, Government affect much concern that capital resources are not fully developed and money that should be available as capital is being wasted away on gold, they do nothing to give stability, if not increase in value, to their securities. If the Idol-breakers and Thugs forced on the people the necessity of hoarding, the action of the Government during the last few years is hardly calculated to wean them out of that habit. Still, it is sickening to see the barbarous custom of wearing ingots of gold and silver and the Indian folk persisting in this childish custom. The Marwaris and Chetties are perhaps the greatest sinners in this respect. The Banks are crying aloud for deposits; the Savings Bank system is quite safe; while, the cash certificates are fairly profitable investments, especially for the middle classes.

Before concluding this section, reference

must be made to the future gold policy of the Government. The silliest of silly things was the sale of £2 millions gold from the Paper Currency Reserve. Even the London Financial papers, taken aback by this queer transaction, gave it a sort of support as a matter of policy, but gave a severe hint that "this should not be repeated." I also acclaimed Sir Basil Blackett's appointment as Finance Member, but his salt tax proposal and the sale of Reserve gold show that he is no better and he has been well caught in the vice of the machine. We can safely venture the proposition that if Sir Basil had been Finance Member in 1920, we would have the folly of Reverse Councils, all the same. Is it not time therefore, that Indians should plump as the first step for all Reforms, that these two key positions of Finance and Commerce Memberships should be in the hands of Indians only? Any day, Sir Purushottamdas Thakoredas, Sir D. M. Dalal and others would prove better Finance Members than Mr. Hailey. This digression apart, not only should the £2 millions gold be immediately replaced, but also the balance of £8 millions which was left in the sterling securities in 1920 should again be made available and be transferred to India in the form of gold.

There is one dangerous footnote that is always appended to the statement of the Paper Currency Reserve, that is, 'there has been no transfer of gold from the Paper Currency Reserve to the Indian branch of the Gold Standard Reserve.' It means, as I understand it, the Paper Currency Reserve gold should be transferred to Gold Standard Reserve, by means of deflation. This was first mooted by Mr. Hailey himself in 1921 and whether good sense and the chiding of the Indian Merchants' Chamber, Bombay—do people know how much they owe to this splendid and wideawake body? —prevailed or whether Government themselves were horrified at their own suggestion, we do not know, but this was dropped. From his reply to a question as to how the Gold Standard Reserve should be brought back to India, it looks Sir Basil Blackett had this course also dangling in his mind. This ought not to be. Not only should the Paper Currency Reserve gold be kept intact and also augmented if possible; but also the Gold Standard Reserve should be brought in the form of gold, say, at the rate of £5 to £8 millions per year.

X

More than the reader himself, I feel a straggler in the pursuit of these details. Hence, we shall leave the tedious process of enlarging at length on each of our counts but simply mention a few more. But that would by no means exhaust the list as the visible and invisible items are too many.

They are the general trade depression, the liquidation of companies, the closing down of some industries (here, we shall not trouble the reader with figures as the Joint Stock Companies' reports generally appear in the papers); the loss in general revenue, the decrease under Customs, Income-tax and Railways first, and then made up by increased rates and duties; the tight money market, the high Bank rate, the low dividends of companies, or in many cases companies paying no dividends; the consequent low earnings or losses to the people and the Government. If there had been no Reverse Councils, there would surely have been exchange gains all these years. Besides, what is more important, our Services would have left us in peace, with exchange at 1sh. 8d. and I repeat for the 'thousandth time' as Mr. Hailey

would say, there would have been no need for the Lee Commission.

Before concluding, special mention must be made of two or three miscellaneous losses One is that £9⅓ millions Postal and Money Orders went 'Home' in 1920-21 when exchange was high and £8⅕ millions returned from England when exchange was low in 1921-22. The loss to the Indian Exchequer is about 2 crores. Perhaps, this could not have been avoided. The other two are "Loss on war disbursements recoverable from His Majesty's Government and other Military transactions" and "loss in connection with the over-buying guarantee." To the extent, they are inevitable, it is no use raising the dust.

But some occasion has arisen for impugning the impartiality or honesty of those concerned in the settlement of these claims. In the Revised Estimate for 1920-21, it is stated that there will be a net recovery of £54,330,600 from His Majesty's Government on account of war disbursements as against a Budget Estimate of £36,125,000. In 1919-20, it was £58 millions and in 1921-22, £11 millions. Hence the presumption is that War Office payments were progressively decreasing from 1919 onwards.

And we have been assured that payments are being made every month at the current rate of exchange and that even large advances have been left with the Indian Government by the Home Government. In the face of all this, it is surprising to read in the Currency Report 1920-21 "that recoveries from the War Office varied from month to month, the largest amount being $11\frac{3}{4}$ millions in March 1921." Taking the average for 1920-21 and 1921-22, only £2 millions could have been spent in March 1921. It looks then that the Government of India were remiss in their duty and claimed the £12 millions in March 1921 when exchange was as low as 1sh. 3d. and 1sh. 2d. instead of earlier. This is one of those leakages—wilful or otherwise—in which the Indian Exchequer loses and British Treasury gains, and other examples of which have been unearthed by the *Leader* in two or three articles called, "At India's Expense." Not only has India lost in these transactions by the fall in Exchange in 1920-21, but she has been forced to incur further losses by settling £12 millions at 1sh. 3d. and 1sh. 2d.

Besides, why India should incur losses even on transactions on behalf of the Mesopotamian

Government, is not clear. Likewise also, why there should have been loss on gold purchase and sale, we are not able to understand. Here is a typical case for the vigilant Mr. Jamnadas Mehta M. L. A. to interpellate on in the Assembly.

Take the loss on the over-buying guarantee to the Exchange Banks. The losses on the two previous years might be justified, but the loss in 1920-21, which took the shape of 1·69 crores cash payment, smacks more or less of a hoax. That the over-buying guarantee, by itself, is a huge camouflage, if not a trick practised on India, will be clear in a later chapter when we deal with the havoc caused by remitters from India. The condition with the Exchange Banks was that Council Bills should be sold at a favourable rate within one year after the war was over. Why was it then prolonged to 1920-21; and why did it take the form of cash payment? How are we to reconcile the plea that Exchange Banks accumulated funds in London to relieve the pressure on the Indian Treasury, with the fact that in 1920-21, the Exchange Banks got £16 millions of Reverse Councils allotted to them? Thus, cash payments for fictitious Council Bills and gains

on the £16 millions Reverse Councils at cent per cent. No wonder, that Exchange Banks paid huge profits and put aside substantial sums towards their reserves.

We have not invented or imagined all these losses to make the flesh creep. Those who ponder at the plight of the people at present, will recognise that a general malaise has overtaken the country, and with it, a deeply embedded poverty and consequent suffering. It is no exaggeration to say it looks as if all the ten plagues have settled on the financial and economic condition of the country. The results of Bolshevik experiments will certainly pale into insignificance before the widespread devastation caused by this one single act. Even the (London) *Times* admits, "the purchasing power of the Indian has sunk to the pre-war level." The Government of India is generally compared to Micawber. Granted; may we then ask whether there has not been some Uriah Heep, that "Heep of Infamy," behind all this?

While such is the case, it is amusing to note that the gloomy condition of our finances has been attributed to Mahatma Gandhi. Sir Malcolm Hailey as Home Member repeated the catchword that "Mr. Gandhi was the enemy of

the economic progress of India." The *Times* demanded the latter's head on a charger and opined that 'until Mr. Gandhi is tackled, the financial condition of India would not improve.' The *Pioneer* and the *Statesman*, the two watch dogs of India preached the same gospel in 1922 and came out with flaring head-lines, such as 'N.C.O. Agitation, Financial consequences. A Heavy Outlay.' 'The Cost of Agitation to India, Over 50 crores of Rupees.' The *Pioneer* wrote,

> "In the absence of extremist agitation, three-fourths of the additional taxation imposed in India during the past three years would have been avoided."

The *Statesman* wrote,

> "One of the chief assets of the Indian non-co-operation movement has been the increased taxation necessitated by recurring deficits in the Imperial Budget. It is unfortunate that the authorities have never attempted to turn the tables on the non-co-operators by proving—as they could, to demonstration—that three-fourths of the additional taxation imposed during the past three years has been directly due to the operations of the non-co-operators themselves."

Not satisfied with these, the demand went forth "grasp the nettle:" All these, do they not bear a striking resemblance to the scene in 'Macbeth' where the murder of Duncan is foisted on the poor guards? Besides, this is one of the most glaring examples of British (National) untruths. In justice to Mr. Hailey, it must be said, as Finance Member in his three dolorous budget speeches, he has himself borne the cross and has not shifted it on toGandhi or others. (Here, I might make a confession that it is these blatant attacks and attempts at misleading the public as well as the continued gibe at Pandit Madan Mohan Malaviya by Sir Basil Blackett, as if he is wisdom and last word in Finance, personified—a gibe that would have disheartened a man of less tough fibre—it is these that have more than anything else impelled me to undertake this *expose.*')

* * * *

In all that I have written, it might seem I have been particularly hard on Mr. Hailey. I have written more with sorrow and pity about him than with anger. To quote his own words, 'I have no animus against this unhappy and misguided man.' He is a martyr to England's greed; he has sacrificed his reputa-

tion at the altar of England's greater wealth—though from our point of view, much of it ill-gotten and hence, temptingly inviting to the law of Nemesis. He alone blurted out that he was called the "Enemy of mankind." In saying this, he has put himself on a higher pedestal. Such an appellation goes with Lenin, the ex-Kaiser, Napoleon, or Timur, etc. Whenever I think of Mr. Hailey as Finance Member, I am reminded of two characters, one in fiction, Job Trotter in 'Pickwick Papers,' the other in history, Muhammad Bin Taghlak. The world has not yet ceased laughing at Taghlak. Hereafter, in the place of Muhammad Taghlak, the world may laugh at Mr. Hailey. Herein, lies his place of immortality.

But, Sir Malcolm Hailey, the Home Member, is a distinct success. He deserves every word of praise bestowed on him by Lord Curzon, though we might take it that Lord Curzon was unaware of his finance membership. Sir Hailey's parliamentary gifts are really of a high order. He showed real sympathy and capacity as Home Member. It is to be hoped that, in Punjab, he would display the same traits, bring peace to that sorely tried province and prove himself a balm to the much-afflicted people

there, victims of illusion as well as of treachery. (It does not mean Sir Edward Maclagan, one of the gentlest and noblest Englishmen, has proved a failure, though he might have kept a greater check on communal hatred). Let not Sir Malcolm Hailey take his stand on prestige of the *Raj*—to use this patronising word. It is to be hoped he will completely retrieve his lost reputation.

He should not have been appointed Finance Member. He should have become Home Member at the outset, for which he had undoubted abilities. But they wanted a tool and some elf behind him had been using him like that. The great banquet held in his honour in Delhi on the eve of his promotion to Governorship reminded me of the banquet in 'Macbeth.' And, if only some ghostly echo of Reverse Councils had been heard then, I could imagine Sir Malcolm Hailey getting up unmanned and unnerved and looking ferocious with all the fury of an unnatural fear, and saying,

> Thou canst not say I did it: never shake
> Thy gory locks at me !

BENEFICIARIES OF THE "LOOT."

STATEMENT SHOWING THE AMOUNT OF REVERSE COUNCILS SOLD IN THE YEAR 1920.

Date of Sale.	Amount sold at each sale in £.	Rate of Immediates. (approximately.) sh.	d.	Rate per £. (approximately.)	Market rate. sh.	d.	Share of Indians or, amount allotted to Indians. £.	Remarks.
2nd Jany.	770,000	2	4		2	3⅞		(a) The share of
8th Jany.	990,000	2	4		2	3¾		Indians for Janu-
15th Jany.	300,000	2	4	Rs. 8½	2	3		ary is not given
22nd Jany.	2,000,000	2	4		2	3¾		but it could not
29th Jany.	1,334,000	2	4		2	3		have been much
5th Feb.	2,000,000	2	9	Rs. 7¼	2	7¾	287,000	as Indians' eyes
12th Feb.	5,000,000	2	11	Rs. 6-14	2	9	378,000	were not opened
19th Feb.	2,000,000	2	10		2	7½	533,000	then. Their share
26th Feb.	2,000,000	2	10	Rs. 7	2	7¼	349,000	may be out of
3rd March	2,000,000	2	10		2	7¼	332,000	£5·4 millions,
11th March	2,000,000	2	8	Rs. 7½	2	5	536,000	only ·4 millions.
18th March	2,000,000	2	7		2	3½	648,000	
25th March	2,000,000	2	6	Rs. 8	2	5	503,000	(b) Calcutta
31st March	1,988,000	2	5		2	3¾	339,000	alone got
8th April	2,000,000	2	4	Rs. 8½	2	3½	246,000	£3,472,000 on

15th April	2,000,000	2	$4\frac{1}{2}$		2	$3\frac{1}{2}$	271,000	12th February.
22nd April	2,000,000	2	$4\frac{1}{2}$		2	$3\frac{3}{4}$	279,000	
29th April	1,000,000	2	$5\frac{7}{8}$		2	$3\frac{1}{2}$	281,000	
6th May	1,000,000	2	5		2	2	414,000	
13th May	1,000,000	2	5		2	1	402,000	
20th May	1,000,000	2	$5\frac{1}{2}$	Rs. 8	2	1	439,000	
26th May	1,000,000	2	5		2	1	412,000	
3rd June	1,000,000	2	5		2	1	363,000	
10th June	1,000,000	2	5		2	$\frac{1}{2}$	389,000	
15th June	1,000,000	2	$4\frac{5}{8}$		1	10	390,000	
24th June	1,000,000	1	$11\frac{1}{2}$		1	10	288,000	
1st July	1,000,000	1	$11\frac{1}{2}$		1	$8\frac{3}{4}$	388,000	
8th July	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{4}$	337,000	
15th July	1,000,000	1	$11\frac{1}{2}$		1	10	356,000	
22nd July	1,000 000	1	$11\frac{1}{2}$		1	$10\frac{1}{4}$	346,000	
29th July	1,000 000	1	$11\frac{1}{2}$		1	$10\frac{3}{4}$	260,000	
5th August	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{2}$	321,000	
12th August	1,000,000	1	$11\frac{1}{2}$	Rs. 10	1	$10\frac{1}{2}$	323,000	
19th August	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{4}$	307,000	
26th August	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{3}{8}$	373,000	
2nd Sept.	1,000,000	1	$11\frac{1}{2}$		1	10	310,000	
7th Sept.	1,000,000	1	$11\frac{1}{2}$		1	$9\frac{3}{4}$	314,000	
13th Sept.	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{4}$	327,000	
21st Sept.	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{8}$	273,000	
28th Sept.	1,000,000	1	$11\frac{1}{2}$		1	$10\frac{1}{8}$	247,000	
	55,382,000						12,561,000	

(*c*) 6 Exchange Banks got £16·3 millions.

(*d*) Cox & Co. about £2 millions.

(*e*) In the Indians' share of £12·5 millions, is included the share of the Sassoons and Presidency Banks which is about £2 millions.

(*f*) Note the difference in the two rates, which ranged from 6d. to 2d.

The above table gives rise to a multitude of thoughts, albeit disconnected. The Indians' share is only about £13 millions and if we exclude the portion of the Sassoons and the Presidency Banks, our share really comes to £11 millions or $\frac{1}{5}$ of the total Reverse Council sales. It has been said that these sales were in response to trade remittances. If so, are the sons of the soil entitled only to one-fifth? How are the Exchange Banks including Cox & Co., entitled to get as much as £18$\frac{1}{3}$ millions, more than one-third of the amount sold, when they are not actual traders? Since there was considerable difference between the market rate and the Government's arbitrary rate, these Banks must have resold them at a huge profit, or for the 15 crores they paid to the £18 millions, they must have got Rs. 27 crores or cent per cent profit if they had retransferred the whole amount. A veritable gold mine indeed! all gold and no quartz. This is in addition to the gift made to them on some imaginary Council Bills to liquidate an imaginary over-bought position, referred to in the last chapter. It is also worth noting that on 12th February when one pound was sold for Rs. 6. 14 as.—what a windfall—Calcutta alone,

that means mostly European remitters, got £3,472,000 or more than $\frac{2}{3}$ of the sum sold on that date. Among other things, this shows how the wind blowed. We shall again ask how are non-Indians entitled to remit £44 millions at a profitable rate and thus inflict huge losses on the Indian Revenues or cause loss to the Indian people. The Government in India seems to exist for the benefit of everybody else but Indians. Even the Americans and Japanese got £10 or £12 millions as much as the Indians got.

The whole transaction creating unhealthy competition and feverish speculation, savoured of Monte Carlo, Mr. Madan then stated. The *Times of India* roundly charged the Government then for encouraging wholesale gambling and speculation and creating conditions as demoralising as the jobbers and speculators do in a share market. Whatever it be, without questioning the *bona-fides* of the members of the Currency Committee or of those who carried out this policy, one thing must be said, and that is, the idea of selling Reverse Councils at the rate of 2sh. 11d. must have originated first in the ingenious brain of some single person, fit to be the President of the gamesters of Monte Carlo or New York.

This naturally leads us to the question why Reverse Councils were not sold at competitive tender. Sir Fazulbhoy Currimbhoy asked Mr. Hailey why the Government should not sell at competitive tender. Immediately, Mr. Hailey got up, disowned or repudiated any such idea and said they would never think of such a step as if it was all wrong. But, all the time, Council Bills alone were on offer at competitive tender. Even the Karachi Chamber of Commerce sardonically pointed out, "the Government of India were selling pounds sterling every week on terms for more favourable to the public than the public themselves asked for." And, let it be remembered that all this gain went into the pockets of those who, by withholding remittances, caused all the currency and exchange troubles after 1917. In the whole of that year, particular stress was laid on this point and in the 1921 Budget speech, Mr. Hailey defiantly said 'they refuse to answer the question as to why they did not adopt competitive tender.' In all that I have written, I am backed up by the forceful remarks of Mr. Eardley Norton in the Legislative Assembly—not to speak of the views of Sir Montagu Webb and Mr. E. L. Price. Mr. Norton said in the

course of the first Budget debate in the newly-born Assembly—more is the pity—about the failure to adopt competitive tender as follows :-

> "Why not? Did they not know or knowing, will they not answer? I cannot entertain for one moment the suggestion that the Government have not got the answer. The only horrible inference is that they have it and will not reveal it. I think we are entitled to apply to the Hon. the Finance Member from his failure to produce, the legal presumption most hostile to himself. It is quite clear to me, and I hope it will be equally clear to the House that the reason why the Finance Member was unable to answer that particular question with regard to the policy of his Government in the matter of Reverse Councils was because he did not wish to implicate persons who are not here and who do not desire to be here.

> And if it be true—I am afraid that it is—if it be true that the real impelling and controlling influences with regard to this matter and other financial matters are to be found in England and not in India, then I think the House would like very much to know who is the Rasputin behind our Financial Czar, to which I would add the supplementary question, where is he

living, in Delhi or in London? Is it in India where we can control him or is he at Home outside our jurisdiction?

These financial considerations are brought forward, not as they should be, solely for the benefit of the peoples of India, but under alien guidance for the benefit and prosperity of men who have long exploited India for their own ends and who intend to prolong that process without interruption in the future."

There are some other disconnected thoughts or queries, arising from the list of allottees. Mr. Hailey in reply to a question asked the Members to look to the lists, especially those of Bombay, to see how Indians also benefitted by it. There is a strain of meanness in this reply as it seems he or the 'aliens' grudged even the £11 millions which the Indians got allotted to themselves. In the Alliance Bank affair Sir Malcolm Hailey assured an admiring audience that the whole official world did not withdraw a single pie even though they knew the Bank would fail. Would he then give us the same assurance that officials and officials' wives did not participate in that gamble, did not "beg, borrow or steal" to remit through the Exchange Banks, the utmost they could

thus scrape? An answer to this is necessary to show they were disinterested and that all officialdom withstood the temptation and kept away from the market. Or, having tasted the sweets of remittances at high rates, do they desire the same in perpetuity? A statement was issued that large refunds of income-tax had to be made, and that merchants actually received cheques from the Government instead of paying to them. It is to be hoped that in this matter there was greater impartiality than in the allotment of Reverse Councils, as between Indians and Europeans.

Perhaps, if there had not been the temptation of Reverse Councils, the Sassoons would have refrained from converting their privately-owned Mills into one huge limited company. This is not mentioned in a spirit of complaint. Only, the unfortunate result has been that the vast army of poor shareholders have been left chewing the cud since then.

Let me conclude these rather bitter cogitations with one amusing incident. It seems the argus-eyed British Treasury officials levied income tax and super-tax on the profits of 10 to 12sh. derived by the remitters on each 15 rupees or £1 remitted. This is in strange contrast with the

method here, where officials boast of refunds, where not even 'conscience money' occasionally creeps in, and where to decide and levy income-tax on indigo and tea factories and plantations takes years, if not decades. All roads lead to Rome and every little helps!

CHRONOLOGICAL RETROSPECT ON CURRENCY AND EXCHANGE

The seeming profession has been made that there was no alternative to the policy forced on us suddenly in January 1920. As. Mr. A. G. Gardiner, the well-known Liberal publicist, put it with regard to the Tariff Reform issue in England, "it has been sprung on the country with a secrecy and haste more suggestive of the profession of the burglar than that of the statesman." Hence, it has become necessary to examine the question still further, though it might seem like flogging a dead horse. No doubt, the problem has been discussed threadbare in the able articles of Mr. B. F. Madan and in the several representations of the Indian Merchants' Chamber. But then, I have been long intrigued and haunted by the thought what made the officials embark on it and to go to the very root of the matter.

Ostentatiously, they have been proclaiming that their sudden and startling action was

based in the best interests of the people and, indeed, our benefactors wanted to do good stealthily. They gave various seasons for their step, not one of which was tenable. Besides, the answer is still awaited as to why Reverse Councils were sold when the balance of trade was in favour of India, or at such monstrously high rates, and why there was a complete ignoring of competitive tender. There was one reason which when it was given, seemed convincing and that was the great inflation and the consequent rise in prices. Mr. Hailey assured us that one of the reasons why the Government embarked on their policy was that they were perturbed at the huge growth in the Currency note circulation and the consequent inflation and high prices and that they meant to contract or deflate—to use this economic jargon—and thus to mitigate prices.

But a laboured delving into currency reports and commercial journals shows that here too, we have been badly let down. Even the above reasoning breaks in our hands at the merest touch and must therefore be considered as one of those which the Government used freely for misleading the people and for clouding the issue. Unfortunately for the Government, the

statistics in the present case do not lie and they really show that they had other objects in view and that their policy partakes of the nature of shady transactions.

It is here intended to give some chronological facts in the form of a diary, about the Paper Currency Reserve and inflation, the course of exchange with the hide and seek policy of the remitters, the balance of trade including import of gold and silver and Council Bills, the price of silver and the bogey of inconvertibility, and the rise in prices.

Before examining these aspects, let us put some leading questions which, somehow, escaped notice then, but must themselves have arisen in the official mind only to be thrust back as too impertinently obtruding on their conscience. They are: (1) if there was inflation, why did exchange rise at all ? All the world over, it is held that the sign or result of an inflation of currency is the depreciation of exchange. If there was inflation, the exchange rate should have been 1sh. 3d. or 1sh. 2d. Indian exchange like American exchange was soaring high, thus showing there was no inflation. (2) If prices rose very high, exports would fall and exchange would not rise. If Indian prices

were high, how is it then that export bills came out in 1919-20, in spite of the constant rises in exchange up to 2sh. 4d.? Is it not then a true measure of the great difference or gap between the world prices and Indian prices? Exchange rose from 1sh. 6d. to 2sh. 4d. in eight months, and that exporters could sell their bills at the latter rate shows that Indian prices were really 50 to 75% lower than world prices or English prices. On these two points, it is England that should have shown concern to support exchange, as her sterling had depreciated in terms of the rupee and as her prices were more than India's. Both inflation and rise in prices, if truly existent, should have kept exchange down, but contrary was the case in India. It clearly shows there were no difficulties for India and there was no cause for alarm. Truly then, it was a simulated one to work out their schemes. England corrected her depreciated exchange with America by heaping gold on her and corrected her exchange with India by starving her of her gold and by pouring unlimited quantities of goods on us.

The third reason was the high price of silver. This was only one of the causes that contributed to the rise in exchange. Even if the

price of silver was high, would exchange have risen if there had not been such a huge favourable balance and large outlay in India on behalf of His Majesty's Government or if there had been a severe famine? The rise in exchange was to prevent rupees from being melted down and Council Bills from being sold at a loss. The increase in silver price should have been reckoned as a factor only when there was a demand for Council Bills and rupee coinage. In December 1919 and January 1920, there was no demand for Council Bills and silver as a threatening element lost its importance even then, as exports could not keep pace with any higher rise in exchange. Besides, silver coinage had overtaken the demand.

Again, we were told that their object was to reduce the Home Charges. Why did it not strike them to reduce the Home Charges *per se* instead of manipulating the exchange? Their object was to keep the level of Home Charges high or even increase it in millions of £s. Only they wanted to hide it by saying what less number of Rs. are required to pay it. Instead of claiming they were saving 10 or 20 crores on such remittances by means of exchange, common honesty would have led

them to embrace the opportunity then afforded, of reducing the incidence of Home Charges itself from £20 millions to £10 millions or even less. In that case, India need never have troubled herself with rises and falls in exchange in future.

These were all ignored. Instead, the parrot cry was raised as to the danger of inflation, price of silver, inconvertibility, etc. The Government of India went on like a blind machine set on its purpose. They did not even pause to enquire that if exchange wanted support, it should be only after all the restrictions on trade and treasure had been removed. Indeed, when they said exchange was low at 2sh., gold was flowing into India instead of outward and it was at a high premium within India itself. By their action, they have violated even the most elementary principles of scientific economics.

I

Paper Currency Reserve and Inflation

The *Capital* wrote on February, 1920,

"It is probably more with the view of contracting the paper currency than with any inten-

tion of catering for an uncertain demand that the Government of India are dealing so largely in Reverse Councils."

The Government issued a *communique* on September 28, 1920 as follows:—

"The Government of India have been in continuous communication during the past few months with the Secretary of State on the subject of the sale of Reverse Councils. Since the 1st February, the note circulation has been reduced from Rs. 185 crores to Rs. 158 crores on the 15th September and this material contraction of currency has to a large extent been rendered possible by the maintenance of the weekly offer to sell sterling drafts on London."

The Viceroy also said in August 1920, that "their object was to reduce the fiduciary portion of the note issue" and that the reduction was to be effected "by the withdrawal of that portion of our note issue which was based on securities."

What was then the state of the Paper Currency Reserve in 1918-19 while the war ended, or in the beginning of the year 1919-20 when the Currency Committee was appointed and when the question of inflation and prices

must have been present in the minds of the Government even in March and April 1919? How did the inflation danger arise during 1919-20 that required to be dealt with immediately in 1920-21 and who was responsible for this?

PAPER CURRENCY RESERVE

IN CRORES OF Rs.

Year.	Note Circulation.	Silver.	Gold.	Indian Securities.	English Securities.
31st March 1913	68·97	15·48	38·52	9·99	4·00
1914	66·11	16·45	31·58	9·99	4·00
1918	99·79	10·79	27·52	9·99	51·47
31st Dec. 1918	147·08	32·13	19·80	12·65	82·49
15th April 1919	154·09	37·95	17·55	16·07	82·49
7th Jan. 1920	186·20	42·57	43·64	17·49	82·49
15th Oct. 1920	158·53	58·34	23·76	68·07	8·34
			(36·50)	(51·00)	(12·50)

N.B.—The figures in brackets are as the Reserve would be approximately if official exchange were 1sh. 4d. or Rs. 15 per £.

The first idea that must strike one is that if there was necessity for contraction of circulation from 186 crores to 158 crores or by 28

crores in 8 months in 1920, why, on earth, was the note circulation increased by 32 crores in the preceding 8 months in 1919? There was no excuse of war then. One doesn't know how to characterise it, that while in 1919, they issued notes at the rate of 1 crore a week, in 1920 'the withdrawal and cancellation of currency notes were going on at the rate of 1½ crores per week.'

The question of inflation and of notes being based on fiduciary reserve or securities must have been present even in April 1919. Besides, that was the time when the Currency Committee was appointed and the Government of India sent out its representatives to plead before the Committee that India was suffering from inflation and high prices. Instead of retiring the notes based on fiduciary reserve in 1919 and thus checking inflation, they went on selling Council Bills and increasing the note circulation from 154 crores to 186 crores in eight months. Who is responsible for this inflation, so-called? After all, the increase in the notes in 1919 was based on an almost equal value of metallic reserve, silver 5 crores and gold 26 crores. With what consistency or honesty can they then hold that the circumstances in 1920 demanded a cancellation of notes to the extent

of 28 crores,—which is nothing less than a wanton annihilation of the country's wealth ?

For one thing, the Government has frightened us and themselves by the use of the words inflation and deflation rather loosely, and some of our own men thought there must be some little truth in it. Our first contention is, there was practically no inflation and if there was, it was nothing compared to what occurred in the world outside. Besides, inflation was imposed on India as a consequence of the war and of India's readiness to accept these minor inconveniences for the sake of assisting Britain. No one dreamt that this minor inconvenience would be transfused into an attempt for regular bleeding.

How then did the 66 crores notes of 1914 increase to the 186 crores of 1920 ? The answer is easy ; that was because of the huge balance of trade from 1914 to 1920, the heavy disbursements in India on account of His Majesty's Government, the restriction on the import of gold which would otherwise have taken the place of notes and rupees demand, and, lastly, the mischief of the remitters who, from 1917, hoarded up their remittances and who proved a veritable curse to India more than all the gold

hoarders. The following table would show the enormous strain put upon the Indian Currency system :—

Year.	War Transactions Millions of £s.	Balance of Trade Millions of £s.	Council Bills Millions of £s.	Gold Imports crores of Rs	Net absorption of Re-coins. Crores of Rs.
1914-15	8·68	29·10	7·74	7·64	−6·70
1915-16	14·25	43·59	20·35	−1·11	10·40
1916-17	33·19	62·67	32·99	13·23	33·81
1917-18	61·99	61·42	34·88	25·17	27·86
1918-19	82·87	57·24	20·94	−5·56	45·02
1919-20	58·23	118·83	31·22	35·33	20·09
	259·21	373·85	148·12	74·70*	130·48

*It includes about 19 crores of P.C.R. Gold.

It must be inferred, therefore, that the currency position in January 1920 was an index of the true financial strength of the country and of the real accretion of wealth. Not only had the Government to provide the wherewithal to meet the huge favourable balance of trade of £ 374 millions but also to meet £ 259 millions of disbursements in India for the operations in various theatres of war in the Near and Middle East. That it was no inflation has been admitted in the several Currency

reports as well as in the lucid Budget speeches of Sir William Meyer. Is there any wonder or any cause for alarm if the rupee circulation increased by 130 crores and notes by about 120 crores in the period from 1914 to 1919 ?

The Government of India put blinkers to their eyes at the dictates of that infernal body, the India Office, and did not therefore consider the question in all its aspects. We have already raised the issue that if there was inflation, rupee would have depreciated, instead of its appreciating in international exchanges. It was first of all a mistake to suppose that such a large proportion of notes was based on fiduciary reserve as the 82 crores of sterling securities had been declared to be by Sir William Meyer, and were in fact, nothing less than gold. It can be claimed therefore that the metallic reserve to the notecirculation in January 1920, was 90 per cent, and not 45 per cent. as put in the official statement. Even granting the official view, about the fiduciary holding, there was no fear of inconvertibility, apart from the 82 crores of sterling securities convertible into gold or silver. For, I have been able to glean from Currency reports that the *active* circulation of notes in January 1920 was only 160

crores and of this 160 crores, 20 crores of notes were circulating in Mesopotamia, Egypt and East Africa. (About 4 crores of rupee coins were also in circulation there). Practically, the situation reduced itself to this, that, in January 1920, for 140 crores of notes in circulation within India, there was a solid metallic backing of 86 crores and an equally strong backing of 82 crores of sterling securities or about 120 per cent. Again, the edge of all this note circulation was to a certain extent taken off by "the enormous popularity of the 1 Re. notes" which displaced Rupee coins and which amounted to 13 crores in 1919-20. (It is a great pity, and a great mistake too, that the 1 Re. notes are to be withdrawn from circulation).

Notwithstanding all this, if the official version were to stand, we have only to make comparisons with the metallic reserve in other countries. In January 1919, India's metallic reserve was 34·2%; England's 26·4%; France 20·1%; U.S.A. 80·4%; Japan 82·3%. U.S.A. and Japan show a high percentage because they were not Cinderellas with an imperious step-mother stamping her foot on them and preventing them from acquiring gold. Besides, the most

curious feature was that while the Government in India was contracting the note circulation in 1920, at the same time, England was actually increasing her notes in spite of the low metallic reserve, to keep up with the rise in prices and the greater requirements of trade and industry.

The bogey of inconvertibility has no legs to stand on. But it may be properly pointed out, that even with 100 per cent. backing, a large volume of currency would lead to inflation of or rise in prices. Granting this hypothesis, such a state would arise only if there were redundant rupees or notes in circulation. Scenting this plea of inflated currency, the *Capital* wrote at that time,

> "With the present enhanced necessities of life, more ready money is required now than formerly. It is certain that with an ever-increasing population, a higher standard of living, and enhanced prices for everything, there must be far more fluid money to-day than there has ever been before."

The *Capital* might have also added the large number of new industries and trades started after the war depending on cheap capital and unrestricted credit and the vast expansion in inland trade as reasons for the need of more

money in circulation. Mr. Reginald McKenna, the ex-Chancellor and the foremost banker in England, has repeatedly emphasised this point that "a considerable revival of British trade was possible by the abandonment of the official policy of deflation" and "that the improvement of trade would necessitate more banking credit and more currency, but this was not monetary inflation."

This problem of deflation versus inflation has been ably summarised in an English financial journal. It writes,

> "If a Government prints and issues out of the void, new currency tokens, and with them, pretendedly, pays capital and labour for work done—particularly so if the work done is a non-productive enterprise—there would be inflation pure and simple."
>
> * * * *
>
> "But if the amount of money (including National debt) has been increased—*the history of money has been a record of increase*—and that increase is absorbable in capital enterprises which produce more goods and services to counterbalance the increase in the money, then it is surely wrong to confuse that with the situation roughly

sketched in the foregoing paragraph." (Italics mine).

Even Mr. Hailey had the grace to oppose undue deflation after his experiment on India was over. He said in his Budget speech of 1922,

> "I have only to mention this amount for the House to judge of the practicability of cancelling 33 crores of notes out of a total circulation of about 170 crores. * * * Every crore of notes cancelled by us means a withdrawal of a crore of notes from the money markets, with a proportionate tightening of money."

Later on, he said in the course of the Budget debate,

> "The extent of the harm done by the creation of money by operation of this nature depends of course not only on the quantity of money created but on the velocity of its circulation; it is not to my mind legitimate to take a strictly European analogy here, for the velocity of circulation in India is far less than that which obtains in Europe."

On an earlier occasion, while speaking on the resolution *re* Fall in the Price of Securities, Mr. Hailey unburdened himself as follows:—

> "The factor of inflation is not determined merely by the addition of legal value money, or even

by the addition of money, using its widest term, available for credit; an important factor is also the velocity with which money moves. * * * I think it would be a natural supposition that in India itself, supposing there were a large addition to available money of all kinds, the effect of this would be less rapid than in England because money has a lower velocity. We have here an imperfectly developed Banking system though we are ourselves attempting something to improve it. We have methods of bazar finance which are sometimes very sticky. We have a trade which is mainly seasonal and, therefore, money remains out of use for considerable periods. We have the hoarding habit and we have finally the fact that in all periods of rising prices, the tendency is to make very heavy investments in real property. One would, therefore, expect the effect of an addition to available money in India to be less rapid than in England. I think nobody would accuse us, in face of the difficulties of the war, of unduly inflating money in India. We have, of course, had heavy increases in the rupee currency; but that in itself is not necessarily inflation."

This garland of wisdom, he wove for our

benefit in February, 1921, in the Council of State, exactly five months after the *Communique* of September 1920, about the contraction of currency. How to reconcile the *Communique,* with all these remarks from his own month passes one's understanding. Hence, considered from all points of view—Mr. Hailey's superb reasonings, though belated, the fact that only 140 crores were in active circulation in India (of which 13 crores were the very popular 1 Re. notes) with a metallic backing of 86 crores and a backing of 82 crores of sterling securities—was there then any warrant or the least justification for their action in February 1920 ? Besides the worst feature was that in September 1920, while introducing the Paper Currency Bill, Mr. Hailey practically condemned himself. He announced that of the securities portion of the Paper Currency Reserve only 20 crores would be Indian securities, the rest would all be English securities, "because you can immediately convert those into metal." In January 1920, we had 82 crores sterling securities convertible into metal and only 17½ crores Indian securities. The 82 crores were smashed and reduced to 8 crores while the 17½ crores were increased to 68 crores, major portion of these Indian securities

being mere I. O. U's of the Government. Now in September 1920, they vainly or hypocritically harked back to the position eight months before. All we can say on this unprecedented *volte face* is, in the language of Shakespeare, O conscience,

"thou art fled to brutish beasts!"

II

PRICE OF SILVER.

It has been the fate of India to be the victim of every English expert or amateur, quack or trickster. The climax of this was reached when a faked-up report of two professors was flung in the face of India to uphold their theory that the price of silver would remain high for many a year. The real bullion experts and dealers were ignored and, instead, two insignificant professors were dug out to prepare a report on the future of silver. These worthies prepared one, which was a mere fake, though based on an elaborate display of statistics. This was followed up by the astounding statement of Mr. Hailey, "we cannot surely gamble on the fall in the price of silver." Gamble: indeed! But pray! who was gambling? Were they not gambling on the continued high price of silver?

Subsequent developments show that the whole scheme was one vast dissemble, a pretence with a view to smash our well-established standard unit of coin and of exchange. The price of silver would not have risen if the Government of India had encouraged the import of gold. Even if they could not help it, the price of silver should have been a factor only for a temporary rising of exchange to prevent the melting of coins or the sale of Council Bills at a loss. The rise in the price of silver in the one year 1919, due to adventitious circumstances, was magnified and enthroned as a permanent feature. Besides, they overestimated the capacity of China to absorb silver and underestimated the capacity of Mexico for increased silver production. They overlooked the fact that China bought silver at such a high price because her favourable balance of trade with U.S.A. was very large and that whatever be the rise in silver, her high exchange with U.S.A. neutralised the effect of such rise in the price of silver. They also ignored that China is a country of recurring famines, pestilences, floods and civil wars and that she might at any time cease to support the silver market.

The Currency Committee—how one's gorge

rises at the mere mention of this body—stated that it would take many years before the silver purchase according to the Pittman Act, to replace the silver sold to India, is completed and that, during that interval, the price would not fall below 1 dollar an oz. Even before the Currency Committee report was adopted by the Government, Mexico, Canada and South America increased their production of silver. The price of silver began falling below 1 dollar in May 1920 until it reached the low figure of 55 cents per oz. in March 1921 or a fall from 60d. to 32d. an oz., which is, more or less, the price since then. The purchase of silver under the Pittman Act in U S.A. did not save the silver market from the slump that overtook it. The silver mine-owners were alarmed at the "speedy abrogation of the Pittman Act" announced by the end of 1921, and instead of the long period prophesied to the complete this purchase, by this Committee, "silver purchases under the Pittman Act ceased at the end of May, 1923."

I have already charged Mr. Hailey with having been a Finance Member who never looked into trade and money reports. If he had done so, he would have quailed even in January, 1920, before he launched on that mad venture

of supporting a fictitious 2 sh. gold exchange. For, Messrs. Samuel Montagu & Co., themselves in their weekly report, 22nd January, 1920, stated,

> "It is pointed out that significant indications are being given that the doom of silver as the material for the subsidiary coinage in many countries is imminent; Germany, France, U.S.A., Canada demonetizing or reducing quantity of silver in their coins."

Considerable amount of melted silver coin caused a sharp fall in the price from 89d to 65d, a fall of 24d within a few weeks and Messrs. Samuel Montagu & Co., then, wrote in April 1920,

> "The plentiful supplies of silver emanating from various parts of the continent and the many proposals of business in melted coin indicate that very large accumulations will be available. China is not such a keen buyer owing to the falling exchange."

It is clear they purposely ignored the warnings given even by expert bullion merchants.

III

Mischief of the Remitters.

Indian Finance and Currency seem to be the plaything of every vested interest or every grabber in England or their prototype in India. If only the remitters had responded to the appeal of the Finance Member in 1917 and 1918 and had not withheld their remittances from 1917 up to 1920, there would have been no need for such a large sale of Council Bills, such inflation of currency, and wastage of India's resources on the purchase of silver at a high price and exchange would not have soared to such heights. India, too, would have been spared all the gambling and speculation of 1920. In 1918, the Finance Member in his Budget speech made the following appeal,

> "We may yet have to call to a larger extent for the co-operation of merchants and others who have homeward remittances to make, with the view of applying these more largely than in the past to the financing of these essentially national exports."

These remitters would be more than human if they had responded to that appeal and not hoarded away their war profits waiting for a

higher exchange. Hence, throughout the period 1917 to 1920, the cry was that export trade was difficult to finance and that exchange was difficult to procure. The Currency reports for the years 1917 to 1920 gave official expression to the disappointment at, and the hardship caused by, the action of the remitters. The Currency report 1917-18, stated,

> "The amount of these homeward remittances was certainly considerably smaller than in the preceding year and probably also below the level of recent years. * * * Through its (price of silver) effect on the exchange value of the rupee, this appreciation has, on the one hand, led to the withholding of remittances in the expectation of a higher sterling equivalent being obtainable for rupees."

The Currency Officer in his report of 1918-19 substantiated the above by the following remark:

> "It is a reasonable inference that, as was surmised in my report 1917-18, private remittances have not in recent years served to the same extent as under normal conditions to finance the excess of exports over imports."

The same state continued in 1919-20 in a larger measure owing to the sudden and startling

rises in exchange which, under official patronage, threatened to have a jump from 1sh. 6d. to 3sh. or even 4sh. In the early months of this year, "exporters were prepared to pay to remitters a premium at times amounting to 15% for cover without which exchange was difficult to procure."

The months of April and May 1919 were the time when the most serious disturbances arose in India after the Great Mutiny. A certain lugubrious and typically hysterical English writer has written describing the then situation as follows :—

> If Mr. L * * T. * * had, like myself, seen our women and children collected in forts under military protection and moved by the trainload in the stifling heat across the Punjab to places of safety; if he had seen the destruction and experienced that feeling of impending disaster which prevailed prior to the taking of stern measures, I doubt whether he would now state so confidently, etc., etc."

One would naturally think therefore that remitters would have safely sent their money 'Home' then. Such pretendedly anxious moments would not even draw out the hoards of these war profiteers! It is during these

so-called disastrous times that the following appeared in the *Capital* :—

"April 16, 1919. There is very little demand for remittances!

(Ditcher). I don't think those who have to remit money to England will weep copiously if the rupee is further appreciated.

April 25, 1919. Sterling transfers for £1 million; tender £ 25,000. * * * There were no tenders for sterling transfers on the Secretary of State for £ 2 millions.

May 16. A further rise in exchange is by no means considered beyond the bounds of probability. But for those who have to remit money home, the rise in exchange will be very welcome.

August 21, 1919. Many people who have money to remit are holding on, in confident expectation of a further rise in exchange (2sh.)

These reveal how cleverly the remitters have been manœuvring the position to their immense advantage. Even during April, when the disturbances were at their height, there were only tenders of £ 20,000 for £1 million and none at all for £2 millions offers of Reverse Councils. A year hence, for the Reverse Councils of £1 million there were tenders of £ 100 millions or even £ 200 millions. For the 7% loan, one of the

reasons adduced was that capitalists were shy of investing in India because of the non-co-operation movement. And every time we start a political agitation, we are hypocritically told that that would frighten away a much-needed capital. But not all the serious state of the Punjab would make them remit a penny 'Home.'

It seems that, in 1919, the official world too abandoned their earlier attitude and even entered with zest into this conspiracy of rigging up the exchange to an undreamt of level, much to the benefit of official or non-official remitters and incidentally to the advantage of England. In September, the exchange position became acute, and "export business had been severely handicapped" in spite of the large sale of Council Bills. Still, Mr. Howard in his conference with the Bengal Chamber stated,

> "The question had been raised whether it was expedient to issue another appeal to the merchants, such as had been issued during the war, asking them to assist the exchange position by making remittances. Though such an appeal was fully justified during the period of the war, it was hardly reasonable to repeat it now that the war was over."

In view of the above, the *Communique*, the Government issued justifying the sale of Reverse Councils, seems understandable, though exceedingly surprising. The Government stated in February 28, 1920,

> "The recent sales of Reverse Councils have brought into prominence the large accumulation in India of war savings intended for ultimate remittance to England and held back pending the settlement of the future currency policy to be adopted. This policy having now been declared, it was inevitable that these accumulated sums should seek early remittance, the more so in view of the heavy fall in the dollar sterling exchange which occurred at about the time the policy was announced."

The Government rounded off the above amazing statement by saying that "the demand for remittance created in this and similar ways" must be "in a large measure satisfied." In September 1919, the Government themselves did not want the remitters to ease the exchange position. It seems then as if they were thankful that remitters, by withholding remittances, made it possible for the exchange to rise to 2sh. 4d. and that they, therefore, rewarded them by selling Reverse Councils at higher than

market rates. It could not have been held that with about 120 crores of excess exports waiting to be liquidated, there were any difficulties for the "ultimate remittance" of "war savings" in 1919-20. Were 2sh. and 2sh. 4d. or a rise of 50 to 80 per cent. over the pre-war or normal level of 1sh. 4d., insufficient to satisfy their greed? The Government would neither import more gold, increase the acquisition rate for gold, mobilise securities held in England, nor ask remitters to ease the exchange position. Instead of allowing remitters to have recourse to the usual method of meeting export bills or remitting through Exchange Banks, how are the Government justified in using Indian public funds to facilitate such remittances, thus adding still more to the difficulties of the exporters? Let those who prate of the Englishman's high standard of character, integrity of purpose and justice, tell us as to how reconcile these contradictions. After 1921, a rise by half a penny or one penny drew forth remittances immediately. But in 1920, not even 10 pence were enough, thanks to the promised or anticipated help of the Government to manipulate the exchange to dizzy heights.

Thus it is clear that exchange trouble arose

and export bills were difficult to dispose of, because the remitters withheld their remittances. This was done partly with the connivance of the Government and the result was, since the exchange position was not eased, exchange rose from 1sh. 6d. to 2sh. 4d. in eight months. A temporary rise was seized upon as an occasion to pour large profits on the remitters who themselves created this confusion. Here, one other fact may be mentioned. On the 1st Armistice Day of November 11, 1919, when His Majesty called for cessation of all work for five minutes at 11 A.M., the whole Empire observed it except Calcutta Mills and Factories. They were so busy making such large sales and accumulating such large profits that they would not respond to the stoppage of work for that brief interval. The Englishman has not yet ceased raising war memorials. But it is to these loyal folk at Calcutta that did not even observe the first Armistice Day, that Reverse Councils were sold at such profitable rates!

Already, reference has been made that Council Bills were sold to the Exchange Banks at favourable rates after 1918, to clear their over-bought position. A close scrutiny would

reveal unsuspected depths of shrewdness on the part of Exchange Banks. They, themselves, and their favourite *clientele* had to remit large sums every year to England, these being their profits. Without them they could not have declared their dividends to the shareholders. They were naturally chary of remitting them at the low rate then prevailing as,by waiting for one or two years, they could hope to remit at a higher rate. No wonder then, that they offered to use their rupee resources to help the Government on the pretence of financing war exports on condition that rupee funds were released to them in India later on. Hence in the name of easing their over-bought position or liquidating their over-buying guarantee, Government sold them Council Bills at favourable rates in 1918-19 and in 1919-20. Thus the Exchange Banks had thus accumulated all their war profits after 1916 at this end and kept them quite intact ready for remittance at the phenomenally high rates of 1920. These, we need not grudge. But the most exasperating trick was when in the name of fictitious Council Bills, a large sum of 1·69 crores was given them as a gift in 1920-21. How are we to believe that they had an overbought position when they were

able to get £ 18 millions of Reverse Councils allotted to them? Besides, the following is at variance with the plea that they had used up their rupee resources for financing exports. One Money Market report stated in 1919 autumn, that "the Banks are keeping considerable balances in the country in the expectation of a further rise in exchange."

IV

Rise in Prices

Anything was pressed into service to bolster up the high exchange of the rupee and the rise in prices proved another stalking horse. Their hearts bled for the poor of India and Mr. Hailey, not to be outdone by the Currency Committee, stated, "The interests of the many millions of consumers in India whose margin of subsistence is at the best none too large, must come before those of any other class" and that, therefore, the high prices then prevailing could not be "stereotyped" at the old level of 1sh. 4d. After 1920, the same man had no compunction in levying new taxes and duties and in increasing railway rates and fares, postal duties, salt tax, etc.

What was the state of Indian prices in 1919-20? We shall again go to official reports themselves to confute and confound Haileyian theories. Mr. Innes as the Foodstuffs Commissioner wrote in his report then :—

> "The rise in prices was comparatively small up to 1918. Then came the crowning disaster of the widespread crop failure in 1918-19 and prices in 1919 rose by 73% as compared with the previous year. * * * It is hoped that this report will show that the rise of prices in India in 1919 was due to causes beyond control by any Government and it will place the foodstuffs problem in its proper perspective. The crop failure of 1918-19 was one of the worst on record. It was not only severe, but it affected every province a greater or lesser degree and moreover the failure of the rains was aggravated in most provinces by a disastrous epidemic of influenza just when the sowing of the rabi crops should have been proceeding."

This clearly shows that the rise in prices was due to a severe drought and consequent famine and scarcity, and nothing, not even a 3sh. exchange could alleviate the situation. The only course was to continue the embargo on the export of foodstuffs as suggested by the

Foodstuffs Commissioner. Even with all this effect of the failure of the monsoon, " the rise of prices in India " as the Trade report stated, " was less than that in other countries with the exception of New Zealand and Australia." Taking the 1914 level as the unit, the rise of prices in India in 1920 March was only 73 per cent, as compared with U.K. 133 per cent. Belgium 345 per cent. France 239 per cent. Italy 200 per cent and so on. We have not heard of these countries tampering with their standard coin or rigging up the exchange to modify the price level.

Besides, rise in prices is not such a great evil as was pretended by that sinister body, the Currency Committee or by that marionette, Mr. Hailey. As Mr. McKenna said, " we must leave prices to take their own course under the normal pressure of supply and demand. We must seek a general increase of wealth through a more abundant supply (of currency). " He also affirmed that if " we return to the pre-war standard of prices, the national revenue will proportionately fall and the fall in prices would make this (taxation) burden still more heavy." Even Sir Stanley Reed, one of the very few Englishmen who could be expected

to take an impartial view in any conflict between Indian and English interests, pleaded hard with the Committee for making no rash experiment with Indian prices, and said that "high prices are not an evil if purchasing power increases *pari passu*," and that "if money becomes scarce and prices don't fall due to various causes, people suffer." But in their obliquity and overweening conceit, the Committee made one trickish statement that since "the agriculturists have a running grain account with the money-lender, high prices would not benefit them." The cunning underlying this remark beats all the cunning of Iago. We of this country learn for the first time from the gentlemen and experts sitting 6,000 miles away, that high prices will not benefit Indian agriculturists. This is the first time we have heard of a running grain account with the money-lender. No wonder, carried away by their philanthropic fervour to save the Indian in spite of himself, they decreed that high prices must be put down by a high exchange.

We shall leave the Committee alone. But as in all respects, the Government action was never consistent. In April 1919 (mark the date) it was announced that "standard cloth was

abolished owing to the fall in the price of cloth." That shows that anxiety on one score was at an end. About foodstuffs, so long as scarcity conditions continued, the Government was only to retain the severe embargo or restriction on the export of foodstuffs. But though the 1920 monsoon was a partial failure, the Government allowed 400,000 tons of wheat to be exported, presumably to support the falling exchange in October 1920, after the Reverse Councils were over. But, by that time, they had become callous to all criticism.

The result of all their meddling was, prices did not fall in India but deflation proceeded apace. The *Labour Gazette* as if tauntingly at the official world, has been recording ever since that the high water-mark of Indian prices was reached in October 1920. Whereas in England, prices fell more rapidly due to natural causes and deflation simply followed the fall in prices, unlike in India where deflation was thought of as a method to force down prices though unsuccessfully.

A temporary rise in the price of silver, a rise of prices in India due to famine, and expansion of currency, otherwise called inflation, were all used to support their high exchange

policy. But the only outcome of it has been that deflation has been carried too far, exchange has revolted back to the old level and prices in India have not fallen to the same extent as in England. And as Sir Stanley Reed said, money has become scarce, prices have not fallen and people are suffering. A vital blow has been struck at the purchasing power of the Indian in the name of deflation and high exchange.

V

Case for Impeachment—By man or By God

It may be said they could not have foreseen all the results that have arisen from that step and that they embarked on it with no dishonest intentions. But, leaving apart all the contradictions and inconsistencies which we have pointed out, there are certain other definite counts on which a direct verdict can be demanded whether they acted *bona fide* or *mala fide.*

There is, first, the rule that Reverse Councils should be invoked when there was an adverse balance of trade and when exchange went against the country. In the whole of 1919-20 every month recorded considerable excess of

exports over imports and there was a total excess of 122 crores. Even from December to March when the Government's policy was hatched, each month recorded an excess of 6 to 10 crores. There is, of course, the plea that in spite of a favourable balance of trade, balances of remittances were the other way. These balances of remittances kept on accumulating because they did not function in the only way they ought to, (i.e.) meet the exporters' bills. Without allowing or coaxing these remittances into meeting the huge exporters' bills, the Government, in an insensate manner, competed, so to say, with the exporters themselves. The whole Government position has been exposed and a strong case made out for their impeachment—a ludicrous dream, no doubt—by an official report itself. The Currency Report of 1919-20 states,

> "The Council Bills sold exceeded those sold in the previous year, but against these must be set the heavy sale of sterling drafts on London *which reduced the net assistance thus given to the export trade* to a figure somewhat below that for 1918-19." (Italics mine).

The export trade was kept starved of funds; while, the Government, as if it were some

magnetic giant crane, sucked in and simply transferred £55 millions or 82 crores of Rs. from India to London and then sank into a sullen silence after some splutterings.

If more proof were wanted that they themselves did not believe in a 2sh. exchange, it is afforded by the fresh contract then made with the E. I. Ry. Sir David Barbour, experienced man as he is, knew that 2sh. exchange was mere hot air and in the new contract, got a guarantee of compensation for exchange below 1sh. 8d. in the remittance of the surplus profits. He said,

> "The rise in exchange is responsible for an increase of our sterling surplus profits of no less than £ 51,000. So great a rise in exchange cannot be expected to be permanent, and under the new contract there is a fixed rate of exchange (1sh. 8d.) for the remittance of the surplus profits to this country.

It means that the Goverment themselves did not believe in the possibility of a 2sh. rate and gave this concession to the E. I. Ry. The master-sophist who then ruled the roost would have turned round and said, ' they have made a profitable transaction as they believed in the 2sh. exchange and as they would gain 4d.

on such remittances, (though we are not sure whether if exchange stood at 2sh., the 1sh. 8d. contract would be enforced). Just the same infantile reasoning that we hear now, give 2sh. rate to the officials and the government stands to gain on any rise in exchange above 1sh. 4d.

Here, I am a little bit surprised that this aspect has not attracted the notice of such a vigilant financier as Sir Purushothamdas Thakoredas. The 1sh. 8d. rate with the E.I.Ry. for accounting purposes is only a secondary object. The important point is, the E. I. Ry.'s surplus profits from 1919 have been remitted at 1sh. 8d. at Government expense. The publication of the correspondence on this minor subject would reveal the true mentality that prevailed then. But, what about the publication of the correspondence on the bigger question?

I have given a frightening heading to this section, but what follows would justify it. In Mr. A. G. Gardiner's words the whole affair smacks more of the "profession of the burglar than that of the statesman." Let me here take the liberty of quoting what I wrote in my previous book. It was as follows:—

"What shall we say of the appointment of the Currency Committee with no adequate Indian

representation and of the lightning touch or flash with which that particular recommendation which would sap and drain away India's resources has been given effect to. It is still indeed a wonder and mystery how the Reverse Councils came to be adopted with such extraordinary haste and secrecy."

As an English writer put it in the *Madras Mail* "they were in an inexcusable hurry to put the Committee's proposals into practice." Contrast this with the manner in which the reports of all other Commissions and Committees have been dealt with and it is this aspect which is most intriguing. Take the great Royal Commission on Public Services which was appointed in 1913 and which submitted its report in 1917. Opinion was invited from the public and Local Governments after the publication of the report in 1917. Effect was given to most of the recommendations only in 1919, though certain items were given prior sanction. But the Indianisation problem proceeded at a snail's pace. The Indian Industrial Commission was appointed in 1917 amidst great fanfares, and was welcomed as heralding a new era in the industrial policy of the Government. It was even regarded as con-

ferring a Magna Charta on the orphaned industrial progress of the country. Much was expected of this Commission. But it went on in its weary way, time and despatch not being their objectives. The report took a long time a-coming and it was published in 1919. Official procrastination never went to worse lengths than in the treatment of this report. This Commission gave birth to other Commissions and Committees, while action on its recommendations was being postponed. The Chemical Services Committee, the Stores Purchase Committee, the Indian Fiscal Commission were appointed. As for the report of the Stores Purchase Committee, they considered it for a long time after a good deal of correspondence between India's several masters who all must have their fingers in the pie. The result was, they accepted the minority report of the Committee. Why did they not do the same with regard to the minority report of the Currency Committee?

The Indian Fiscal Commission showed much expedition in its task. But Lord Reading said that "it is with the Government of India that the final responsibility of determining these questions in India must eventually remain" and that

a third body called the Tariff Board would be appointed to advise the Government on the fiscal policy to be pursued hereafter. There was the usual delay in this. Of all the Committees on Indian affairs, almost the only body which has proved somewhat of a real blessing is the Tariff Board—next to the Inchcape Committee which it will be sheer ingratitude to forget—though there is justifiable discontent that the Board is too apologetic and that it has not gone far.

As for the Industrial Commission recommendations, they are still hanging fire. Sir Thomas Holland, the then Commerce and Industry Member, who was himself the President of the Commission, when questioned had himself such vague ideas on what to do, that he asked the inquisitive Legislators to refer to the reports of the Directors of Industries. The late Sir Vithaldas Thackersey who was almost the last of the associates of Gokhale to continue his work, asked the Government as to what steps were taken about the report of the Industrial Commission. Mr. Chatterjee—remember it was in 1921, 5 years after the appointment of the Commission and about 3 years after its report was published—replied,

"Some little time must elapse before they can be

carried into effect. No definite programme of work has been framed by the Government of India who are proceeding as quickly as possible with the most important of the Commission's recommendations and such as are capable of being taken up immediately."

Perhaps, our official geniuses long ago anticipated Einstein. For the Industrial Commission and its auxiliary reports, one year meant a Neptune year and hence our (earth) years were only so many days. As for the Currency report, time stretched itself considerably and one day for the publication of and taking action on the report acquired the length of, or was reckoned as equal to at least, a decade. If all this be exaggeration, let me quote the late Sir Vithaldas Thackersey who, in March 1922, in the Assembly, voiced forth the public dissatisfaction for the dilatoriness on this and on other questions in the following words:—

"I want to know what steps have been taken to bring into effect the recommendations of that (Commission). Government appointed in December 1919, the Stores Purchase Committee. That Committee took seven months to report and made an excellent report by the majority. One year and nine months have passed since

this Committee was reported. We know the Government have taken action in appointing an Officer as Chief Stores Purchase Officer in India; but so far as actual steps are taken to encourage industries are concerned, I maintain that nothing has been done. * * * If Government wanted to take immediate action for the encouragement of Indian Industries the report of the Stores Purchase Committee is full of valuable suggestions and they could have taken the necessary action.

Ergo, the Stores Purchase policy requires a resolution to be moved every session and every year before it can be made to bend .to the popular will and yield real fruits.

Take again other Committees. The Jails Committee report was submitted to a process of long correspondence with the Provincial Governments and action has not been fully taken on it. Even the Railway Committee report was subjected to great public scrutiny. As for the Deck Passengers Committee, it seems it is still in the correspondence stage even though three years have elapsed since the publication of the report. God only knows how much the poor labourers and repatriates are suffering under the wide awning of the sky. In the

Ellis Island affair, the emigrants were not undergoing even one hundredth of the suffering here; still, Ambassadors, Secretaries of State, Houses of Parliament worked themselves to fever heat to get the conditions mended or improved.

There are other Committees like those on Mercantile Marine and Beggary, whose reports are in such pendant condition. I refer the reader to the Inchcape Committee report where a full list is given, against most of which will be found the remarks 'under consideration' or 'under correspondence with Provincial Governments.' Therein will be found the list of Committees and Deputations who undertook costly tours and even put a girdle round the globe like Puck—Indians also were members thereof—but the result has been incommensurate with the expenditure. I do not want the Government to act on all the recommendations of all the Committees; for, in that case, we will either reach the millennium, the Utopia of More and Wells or descend into the primeval and delirious savage state, making confusion worse confounded. But what is reprehensible is, they have not understood there is a limit to delay as there must be a limit or check to precipitancy.

Unfortunately, precipitancy—that too of a

diabolical kind—not delay, was the cast of the die in the affair of the Currency Committee report. They did not publish the report first; they did not make known all the recommendations of the Committee; they did not invite public criticism; nor did they resort to the time-honoured method of consultation and correspondence with Provincial Governments. As I wrote on a previous occasion, "one morning, we woke up to find the report and the Reverse Councils sales together." Even the Lee Commission and Esher Committee reports were given time. This particular cause for grievance has been admitted by a few Englishmen like Sir Stanley Reed, Mr. Brock, (of the defunct *Madras Times*), a very able student of Indian Finance, Sir Valentine Chirol, etc. Sir V. Chirol, himself, could not contain his anger and wrote in 1922 in the following scathing terms:—

> "It was an attempt to take advantage of the artificial rise in the price of silver during the war in order to stabilise the rupee at the exchange rate of 2sh. * * * * Not only did the Indian Exchequer suffer enormous losses in its own exchange operations, but the whole trade of India was paralysed and when Indian merchants, threatened in many cases

with ruin, appealed to Government for compensation or help, and were told that Government disclaimed all responsibility, the shock was scarcely more disastrous to our reputation for business capacity than to our credit for good faith. * * * Trade, no doubt, gradually readjusts itself to conditions, however wantonly dislocated, and bumper harvest such as this year promises, is a wonderful panacea. But the moral harm done has been even more grievous than the material havoc."

We shall make a present of the above to Viscount Peel who considers himself an expert on Indian affairs and who every day threatens us with another long tenure of office as Secretary of State for India and also to the London *Times*. The latter wrote with unctuous pride on the settlement of the American debt,

"Respect for word and bond is the greatest of England's assets. The sanctity of contract has reached a higher development in this country than in any other. It has done more than anything else to build up English industry and English honour abroad."

Every word of this is true ; only, when they hear the chink of Indian money, one and all become mere hucksters—with perhaps a few honourable exceptions.

It has somehow escaped the notice of us all that during the whole year 1920, while India was seething with discontent and agitation on the economic ruin inflicted on her, not one question was raised in the Houses of Parliament. A few belated and half-hearted questions were put in 1921, but in 1920 not a whisper was heard in Parliament that a great wrong was then being done to India.

Even the slightest occurrence or the most insignificant matter here immediately finds an echo there and unscrupulous special correspondents are promptly at work. After the Armistice, more than 1,000 locomotives might have been bought in England. Because 4 or 5 locomotives were ordered from Germany, the hypocritical English press worked itself into hysterics, "volley of questions" was rained on the Under-Secretary of State and it was cabled to our benefit that Leeds was in amazement, to give one instance. If some slight scuffle or local rioting occurs in some village, busybodies in the House of Commons are ever on the look-out to exaggerate and magnify it. If some proposal is made to bring the level of the pay of the officers of the Indian Army to that of the British Troops

in England, even Lady Astor, that American-born woman, becomes immediately interested in Indian affairs. Lord Reading, once in his Viceregal career, allowed himself the luxury or freedom of independence and made a feeble protest against the Kenya decision. He was at once pulled up by Viscount Peel and Earl Beauchamp as if he did something to endanger the Empire. And particular discredit attaches to Earl Beauchamp as he, by this interference, betrayed Lord Reading, his former colleague in the Liberal Cabinet—and a senior one too. If Mahatma Gandhi is released after an operation, it becomes a matter for a full-dress debate.

But, not all the scandal of the Reverse Councils sales served to rouse one Englishman in England in righteous anger at the whole transaction. That was, perhaps, because the whole of England was too busy garnering the fruits thereof without realising it was all ill-gotten wealth. To this extent, the House of Commons, if it cannot itself be called the House of Iniquity, must be charged with having condoned a most grievous type of iniquity. And it is this House of Commons that pretends to safeguard the interests of the 300 millions of

voiceless humanity and proclaims that it will never divest itself of its powers of beneficent trusteeship. A piece of very sanctimonious humbug, indeed!

Various other points arise in our mind which should have weighed with the Currency Committee and Mr. Hailey, but which did not seem to have troubled their conscience even for a second. There is the effect of high exchange on Indian trade and industries; but the Committee dismissed it all in one sentence. While giving evidence before the Committee, Messrs. Preston and Chalmers—two Englishmen quite unlike the breed of Sydenham and George Lloyd—warned the Committee against ignoring the results of high exchange and said,

> "You have to-day in India what we may call the birth of an industrial development such as we have not seen before. If that is to be nurtured a high rate of exchange will not do it; it will kill it. * * * Are you going to help those industries by putting up the rate to 2sh?"

Far less excuse, the Government of India had in completely forgetting this aspect of the question. On the one hand, they appoint an Industrial Commission and affect much solicitude for Indian industries; on the other, it seems

they do everything to choke them out of existence. Sir William Meyer was very apologetic even for the rise in exchange by 2d. and he said,

> "I must regret any hardship imposed on our export trade by the increase which it has been necessary to make in the rate for Council drafts. * * * A rise in exchange, under ordinary conditions, tends to prejudice the export trade. * * * The rise in exchange was reluctantly undertaken."

But the hectic rise in exchange in 1919 did not unnerve the Government the least; they seemed to have welcomed it as a piece of particular good fortune. Before 1917 for twenty years, exchange remained at 1sh. 4d.; and during war time, it rose by slow stages, as below :—

		Sh.	d.
3rd January 1917	...	1	4¼
28th August 1917	...	1	5
12th April 1918	...	1	6

The last rate continued up to 13th May 1919. After this date, it rose by leaps and bounds, in 8 months from 1sh. 6d. to 2sh. 4d., and there was a like sudden fall in 1920. The rise and fall which show how the 2sh. ratio was a mere hoax are as follows :—

Rise	Sh.	d.	Fall (lowest rate)	Sh.	d.
13th May 1919	1	8	May 1920	2	$0\frac{1}{2}$
12th Aug. 1919	1	10	Aug. 1920	1	$10\frac{1}{4}$
15th Sep. 1919	2	0	Sep. 1920	1	$9\frac{3}{8}$
22nd Nov. 1919	2	2	Nov. 1920	1	$6\frac{3}{8}$
12th Dec. 1919	2	4	Dec. 1920	1	$4\frac{3}{4}$

The Currency Committee was appointed in April 1919; the Government of India had sent out its representations before September. How are we to judge of the mentality of those who wanted to make permanent a rate of exchange which rose for a few months owing to a combination of various unforeseen circumstances? Again, would the balance of trade and Indian prices bear a rate of 24d., not to speak of 28d. and 35d. or a rise from 50 to 100 per cent? According to them, the price level which was only 70 per cent. higher than pre-war position, was to be forced down even to less than pre-war level of prices!

Such experiments are reserved only for India. England was anxious about the recovery of sterling dollar exchange, but not about the sterling rupee exchange though it was the sterling pound that had depreciated. America did not at all feel perturbed at the rise in her dollar sterling exchange and all she did was

to raise the tariffs on imports to protect her industries from the competition of those countries with depreciated exchanges. Whereas, in India, even in normal times, the tariffs are regulated more with an eye to outside interests.

But the greatest cause for complaint is whether India could have afforded to lose those 35 crores and much more besides, with her 1001 needs and requirements clamouring for funds. With more than 90 per cent. of the people remaining illiterate, with insanitation and dire epidemics claiming a heavy toll from the population, with various reconstruction problems such as housing, public health, technical and industrial education and the development of greater resisting or earning capacity of the people being neglected for want of resources, how heartless they seem to have been in having wasted away all those crores of Rs. With those 35 or 100 crores, could they not have banished illiteracy to a large extent, could they not have almost wiped off such scourges as plague, cholera and leprosy, etc., whose victims can now only complain to the High Gods? Even the Government's own report on the Moral and Material Progress of India for the year 1919, has recorded the following :—

"Only six individuals in every hundred could achieve the very modest census standard of literacy. It must be plain that until the proportion of literates can be raised, the masses of India will remain poor, helpless and prey to political dangers too serious to be contemplated with equanimity. * * * The seriousness of the present position of Indian education is merely brought home to the observer by an analysis of the proportions of the population undergoing different types of instruction."

Coming to sanitation, this report says,

"The immense population of India and its general poverty make sanitary reform a problem of immense difficulty. Without a widespread movement, * * it will be almost impossible to secure India from disastrous epidemics. * * * Nor is it only in the large centres of population that sanitary conditions are so bad. It must be remembered that less than 10 per cent. of the total population of India live in towns; the remainder live in villages which have been all truly described as collections of insanitary dwellings constructed on dung hills."

In the face of these—their own statements in 1919—how they had the heart to wantonly fritter away India's resources is a mystery.

But the evil has not stopped with that. It seems to be persisting still with its grip over India's financial and economic condition. The Currency Committee might have, in their utter indifference, exclaimed,

> Now let it work—mischief thou art afoot,
>
> Take thou what course thou wilt!

But, certainly, the Government of India ought to have adopted a more responsible and conscientious attitude after 1920. If they had been really sincere and honest, they would have got alarmed at the Frankenstein they raised and would have modified their programme *after* 1920. Even fully allowing they acted with the best of intentions then, my own chief cause for complaint is, they did not throw overboard their other like ventures and did not manage India's finances with greater care and solicitude the moment they found their plans miscarried. Hence, they will have to be adjudged as having been guilty of piling Ossa upon Pelion or of having put red-hot cinders over a gashing and gaping wound.

* * *

FUTURE POLICY

It has become almost axiomatic that anyone who dabbles in currency and exchange problems in the present chaotic state of the world is likely to get demented or become a candidate for an asylum. I do not claim to know much of this complex subject which does not stand by itself but which impinges on every concern, financial and economic, of mankind. But I am not sorry for incurring even the little risk attendant on a pursuit of this subject since it has enabled me to unearth or make public a remarkable statement of the Bengal Chamber of Commerce, supporting the Indian contention for a low exchange or for a return to the old level of 1sh. 4d. In the course of their memorandum opposing protection to iron and steel, they have stated under the heading " Disturbing Balance of Trade" as follows :—

> "If the levy of protective duties on steel is successful and the importation of foreign steel is largely restricted, it is not unreasonable to apprehend a disturbance in the balance of trade. The total value of India's import trade for the year 1921-22 was about Rs. 266 crores, and of this total nearly Rs. 81 crores was represented by iron, steel, machinery, railway plant and

hardware. *A reduction of imports means an increase in the balance of trade in India's favour and a consequent rise in the sterling value of the rupee. And if Indian products are to compete in the world's markets in sterling, the Indian agriculturist will receive fewer rupees for his pound's worth of goods.* But the cost of his agricultural implements and of the galvanised sheets that are used throughout agricultural India for building purposes will be simultaneously enhanced. He will be therefore adversely affected in both directions, and further he will suffer from the restricted transport development. Even under present conditions agriculturists as a class are poor. They have very little in the way of margin after paying for their food and clothing, and if they are to be penalised by a protective tariff on steel the resulting distress among them will be great." (Italics mine.)

It is surprising that this timely admission on the part of the most influential body in India has been lost sight of, probably because nobody would have expected such practical wisdom and beneficent intentions to be hidden away in such an un-looked-for place. The above views of the Chamber so far as the italicised portion

is concerned—the other portions also are overflowing with the milk of human kindness—must naturally render the task of Indians easier.

It seems to be the peculiar privilege of Englishmen to hold views which are diametrically opposed to each other. Like the official inconsistencies of which numerous examples have already been given, at the time when the Bengal Chamber was supporting the low exchange of 1sh. 4d., its representatives in the conference of the Associated Chambers were opposing any statutory change in the exchange ratio from 2sh. to 1sh. 4d. Leaving this apart, it is clear that the Bengal Chamber has unawares committed itself to a low exchange policy and thus supported the Indians' demands. Sir Basil Blackett will have no further excuse to delay introducing the necessary legislation for a change in the exchange ratio to 1sh. 4d. or even less.

The only question at issue at present is whether exchange shall be fixed at 1sh. 4d. sterling or 1sh. 4d. gold. If at any moment, Sir Blackett cherishes a fond hope that exchange may rise to or may be stabilised at a higher than 1sh. 4d. rate, there are Mr. J. A. Wadia and Sir Montagu Webb asking why exchange

should not be fixed at a lower than 1sh. 4d. rate (i.e.) at 1sh. 2d. or even 1sh. The desire of one is countered by the equally sound demand of the other. Between the two, we are having a period of dangerous inaction, instability of exchange, and Government, even within the narrow limits of a 2d. difference, creating conditions of instability and speculation as badly as in 1920.

Only, we must ask Sir Blackett when he counsels this policy of inaction, whether he does so disinterestedly or at the dictates of the city of London and of Lancashire. We are tempted to raise this question in 1923 and 1924 —it is clear they have not learnt the lessons of 1920 and are still unrepentant—by the two following extracts. The Monthly Review of the Barclay's Bank—of which our friend Mr. Goodenough, a Member of the Currency Committee, is the Chairman—wrote in its issue of December 1923, under the section, India, as follows:—

> "The rapid rise in the exchange has increased the cost of Indian products in foreign markets, and is reflected in diminishing exports of certain commodities. Hides and skins, in particular, have been affected by this factor.

Indian prices for hides are higher than those for South American, and the already small demand has been further restricted. On the other hand, with the improved value of the rupee, sales of Manchester goods have increased, and quite considerable orders have been placed for fresh supplies, forward exchange having in some cases been arranged as far ahead as April next. If this tendency continues the value of piece goods imported should shortly again approach the normal, for the figures have already increased considerably since the depression of 1920."

When the above was written, exchange was at 1sh. 5d. Since then, exchange has not gone below 1sh. 5d. and now shows a tendency to reach 1sh. 6d. No wonder, that these rises are welcomed by the English Financial journals and that they oppose all attempts at fixing the ratio at 1sh. 4d. One such journal while endorsing the decision of Sir Basil Blackett that all attempts at stabilisation are premature, has in the same article followed it up with this admission that "the improvement of Indian exchange will stimulate Indian demand and benefit some of our industries." We now see why they are averse to fix the ratio at 1sh. 4d.

gold, much more at 1sh. 4d. sterling. These clearly show that some extraneous influences are still at work, undaunted by the eternal shame and scandal of 1920—perhaps, in money matters, there is no such thing as shame, only grab is the order of the day. They defied all Indian opinion in 1920; but they have not the grace to listen even now to the unanimous demand of Indians that the exchange ratio shall be officially fixed at 1sh. 4d. gold. It looks as if they are determined that if they cannot revive the 2sh. rate, exchange shall be manipulated between 1sh. 5d. to 1sh. 7d. to their benefit.

The proper step would be to fix exchange at 1sh. 4d. sterling, the old level when sterling was in parity with gold, "in which at least nine-tenths of our transactions in foreign currencies are expressed," to use his own words. We know fully well that England is bound to reach the pre-war parity of her exchange in her own interest. And India can certainly moor her exchange at 1sh. 4d. sterling. If that be considered rather low in the present level of prices, why they should have any objection to the 1sh. 4d. gold, is not clear. The 1sh. 4d. gold need not be for immediate efforts at stabilisation. The change may be made in the statute and as I have

already mentioned in page 89 *et seqq*, having fixed that rate, the Government need not go to its support one way or other.

Sir Blackett has miscalculated that a return to 1sh. 4d. gold would mean deflation. On the other hand, without any idea at stabilising it at that rate, 1sh. 4d. gold would immediately help in inflating our currency to the extent of half the value of the gold and the sterling securities held in the Paper Currency Reserve. By the fictitious ratio of 2sh. in the statute book, Indian trade and industry has been deprived of a much-needed expansion of currency in two ways. The first is, the 22 millions gold and the 14 millions sterling securities have released notes only to the value of 36 crores at the rate of Rs. 10 per £. If the exchange ratio be statutorily altered to 1sh. 4d. gold, both the reserves would immediately add to our currency about 18 crores more. This would not be inflation as within three months from November 1923 to February 1924, 26 crores currency have been created based on the 14 millions sterling securities and on Bills of Exchange. In three months, there had been an addition of 26 crores, still exchange had not fallen but had always shown a tendency to rise. Here, we shall just consider the state of the

Paper Currency Reserves after 1920, both at the official ratio of 2sh. and at what it would have been if the ratio had been 1sh. 4d.

IN CRORES OF RS.

Year.	Note circulation.	Silver.	Gold.	Indian Securities.	English Securities.	Bills of Exchange.
15th Oct. 1920	158·53	58·34	23·76	68·07	8·34	...
31st Oct. 1923	180·82	98·91	24·31	57·48	...	...
31st Mar. 1924	185·85	80·00	22·31	57·52	13·99	12·00
30th June 1924	172·49	78·64	22·31	57·52	13·99	...
				At 1sh. 4d. ratio.		
31st Oct. 1923	192·97	98·91	36·46	57·48	...	...
31st Mar. 1924	192·00	80·00	33·46	57·52	21·00	...
30th June 1924	190·64	78·64	33·46	57·52	21·00	...

Now if the exchange ratio had been changed to 1sh. 4d. at least in September 1923, there would have been no tight money market as the above table would show.

Thus from October 1923 up-to-date, there would have been no need for the issue of 12

crores of notes on Bills of Exchange, and the note circulation would have gone above 190 crores, if the 1sh. 4d. ratio had been in existence since then. The present policy of undervaluing our reserves deliberately or blindly and issuing notes when Bank rate is above 6% proves a veritable handicap to Indian trade and industries and only serves to increase the profits of the Banks, the Imperial Bank and the Exchange Banks particularly, at the expense of the country's best interests. If only the reserves had been valued at 1sh. 4d. ratio and corresponding notes had been issued, the Bank rate would not have risen above 6% or at the utmost, above 7%. The present 9% and 10% rate is a big scandal, and seems as if deliberately designed to crush Indian trade and industries. When an easy method of relieving the monetary stringency is at hand, the idea of simply issuing 12 crores on Bills of Exchange is monstrous and puerile. Not that it should not be thought of at any time. But, that should have been the last resort. If for nothing else, at least to release the 18 crores notes the exchange rate should be statutorily fixed at 1sh. 4d. gold.

Besides, as have often been pointed out in Bombay by the Indian Merchants' Chamber

and by the commercial correspondent of the *Times of India*, when exchange rises to 1sh. 4d. gold, (i.e.), about 1sh. 6d. sterling, then automatically gold will come into the Paper Currency Reserve and notes will be issued on it. Thus, both ways, financial stringency could have been avoided. Nobody wants 1sh. 4d. to be stabilised immediately or at any cost. But the benefits of the mere fixing of the ratio at 1sh. 4d. are so great that it is a surprise that Sir B. Blackett is playing with it and raising all imaginary objections against it. He is wrong when he said that to reach 1sh. 4d. gold the 25 or 26 crores of additional currency need not have been created. For as I have already pointed out, the statutory change itself would release notes of about 18 crores.

And what is worse, deflation has been carried too far. From January to October 1920, deflation was to the extent of 44 crores in 8 months. After that date till October 1923 deflation was to the extent of 18 crores, or thus making a total of 62 crores. Add to this, the crores of Rs. that had gone to the Near East and neighbouring countries but had not returned, the crores of Re. coins that were exported in the years 1920 and 1921 especially to China

and Japan, the large percentage that would have been hoarded or gone to the melting pot; and a conservative estimate would then place at least another 20 crores as withdrawn from circulation. And since the Government are not issuing any new coinage, the total deflation would be about 80 crores after 1920. Bearing in mind all that Mr. Hailey said about hoarding and slowness of circulation and also that the active circulation of notes is only 80 per cent. of the total, one need not surprised if India has been passing all these years through one of the most severe financial crises in her history, with great depression in trade and industry, with a high Bank rate and with a great stringency in the money market—all due to our paternal Government.

Sir Basil Blackett takes credit that 26 crores of notes have been issued to relieve the situation. But he forgets that it is only a temporary palliative and India wants a permanent remedy in the shape of 1sh. 4d. ratio with its attendant beneficent results and that hereafter there should be no more deflation. Deflation in ignorant or unprincipled hands has already done enough havoc. They were alarmed at the increase of notes in 1919 of about 30 crores

even with a huge balance of trade and with war disbursements and now, 26 crores in three months have not sufficed to relieve the monetary stringency.

So far as his speeches show, Sir Blackett bases his opposition to the return to the old level of 1sh. 4d., again on the old phantoms of world conditions and world prices, of inflation and deflation. The bogey of silver price had been laid by the heels. Now, he is dangling the effect of world prices, cross rate and inflation. As for world prices, India is not suffering from high prices as other countries. She is herself a great food-stuffs exporting and raw material producing country. It is only countries like England that depend even for bare necessities on foreign countries that have to be careful about price levels. In India, currency and exchange have far less effect on prices than the favourable or unfavourable disposition of the monsoon. Given a bumper harvest, no inflation in currency will have any effect on prices. And if there be a failure of monsoon or if, for example, when the flood situation in Tanjore is mismanaged or dealt with dilatorily as the *Madras Mail* correspondents state, there is local famine, prices throughout the country or Presidency

have a sympathetic rise and deflation will be of no avail. A change in the exchange ratio even to 1sh. 6d. sterling will *per se*, have little effect on Indian prices. Any rise in prices can be met by embargo on the export of food-stuffs.

Cross-rate is another hobgoblin with which we, Indian children, are frightened into acquiescence of their policy. Even to-day, Sir Basil Blackett announces as if he made a great discovery that stabilisation of our exchange depends on the cross-rate. A close study of the money-market reveals that both silver price and sterling rupee exchange have broken away from the cross-rate and are revolving in their own orbits and not as satellites tied down to the Saturnian dollar sterling rate as the following would show :—

Date.	Cross-rate.	Exchange (sh. d.)	Price of Silver.
Dec. 1 1920	3·48	1·6¼	44⅜d.
July 14 1921	3·62	1·3¼	37¾d.
May 1 1922	4·42	1·3⅛	34⅜d.
Oct. 1 1923	4·55⅛	1·4 5/32	33 7/16d.
Mar. 1 1924	4·29	1·4 11/16	33 7/16d.
June 19 1924	4·37⅜	1·5 7/32	34d.

One can safely venture the proposition that

Indian exchange can be settled without reference to cross-rate.

The following are the suggestions that might be made here. 1sh. 4d. sterling is the best rate for India. Just as England welcomes every rise in sterling dollar rate, why should not she welcome such rise in sterling rupee exchange (i.e.,) when a sterling pound is worth Rs. 15 or Rs. 16 instead of Rs. 14 or the grotesque Rs. 10 ? It is surprising that England should shy at it even though Mr. Ainscough's ambition is that 99 per cent. of the import and export trade should be with England. They want a monopoly of trade, combined with a most favourable exchange for them. The latter means 1sh. 4d. gold or even a higher rate on the sly. It also means England is not worried or ashamed to have a depreciated exchange with India. We are prepared to accept the lesser of two evils, the 1sh. 4d. gold. Only there should be no attempt at stabilisation, which would be a mere repetition of the 1920 escapade as the ups and downs of cross-rates would affect the Government rate as against the market-rate if exchange were at 1sh. 4d. gold and not at 1sh. 4d. sterling. The gold rate should be only for the releasing of currency

on the payment of gold when the market rate reaches that level on its own volition. What will happen to 1sh. 4d. gold when sterling reaches parity with dollar or if, on account of some future war between America and Japan, sterling appreciates and becomes equal to 5 or 6 dollars? Even before and in the first months of the war, dollar had depreciated in terms of sterling and dollar-sterling exchange was between 5 and 6. This aspect has to be considered. Hence, no more India's good money should be thrown away in support of exchange, but 1sh. 4d. gold should be the statutory ratio.

How often the thought surges in our brain, what deep malice and cunning made them increase the Home Charges instead of decreasing them. Sir Blackett announced that Government of India's own Home expenditure would come to £40 millions per annum. Add to it the Provincial Governments'—like the too obliging Bombay Government's—and Local Bodies' remittances as well as the increased drain on account of fresh investments as shown in a previous section, on the whole about £60 millions or 90 crores to 100 crores excluding all private and company remittances constitute the drain. Under careful management all these

would have shrivelled up to even less than 30 crores. That was not to be. It is on account of these that fluctuations in exchange are causing considerable anxiety. Otherwise, Government need never undertake the function which Exchange Banks are doing in other countries. But we must make it plain that India does not want the petty gains due to a higher than 1sh. 4d. ratio and that her trade and industries can prosper only on a low exchange. Already, the rise in exchange to 1sh. 5d. and 1sh. 6d. has nullified the effect of the 11% duty on foreign piece-goods; while the cannibalistic excise duty of 3½%—the invention of the devil itself—remains as a stranglehold on Indian Mills.

The result of the 1sh. 4d. ratio on the Paper Currency Reserve is the most important point, but which has been generally ignored. Not only should the £22 million gold be revalued as 33 crores but slow addition should be made to the Paper Currency gold. Not content with wasting £55 million securities in 1920, about £8 millions securities have been withdrawn in the name of deflation. Of the 14 millions sterling securities,—here, let the reader note that these 14 million sterling securities were

placed in the reserve in three months only, whereas the 55 million sterling securities which were slow accretions of 4 years from 1915-16 to 1918-19 and which were the real index of wealth, were wiped off as being mere inflation—this £8 millions along with the £2 millions of last year's sale of gold—an almost silly transaction—should be brought back in the form of gold and placed in the Paper Currency Reserve. Both together would make up a reserve of 50 crores of gold.

Last October, the rupees in reserve were about 100 crores. Now it has come down to 80 crores, partly because of the demand for currency and partly on account of the withdrawal of the 1 Re. notes.

I beg to differ from that distinguished financier and statesman, Sir Purushothamdas Thakoredas with regard to the abolition of the 1 Re. notes. The 1 Re. notes were very popular and served a very good purpose. He has opposed the 1 Re. notes on the score of expense. But the expense is inconsiderable compared to the benefits therefrom. There is one good point in the Currency Act which Mr. H. S. Jevons in his book has brought out and amplified, that is, that the metallic reserve shall not be

less than 50 per cent. of the total note circulation. The result is, as Mr. Jevons points out, that every crore added to the metallic reserve would release not only one crore notes to be put into circulation, but will also enable another crore of notes to be issued based on securities, Indian or English. The more the metallic reserve is, whether of gold or rupees, the greater will be the expansion of currency as the notes can be double the metallic reserve. I request Sir P. Thakoredas to withdraw his opposition and himself suggest the re-introduction of the 1 Re. notes. Even the London *Times* has in an article on the "Growth of Indian Notes" opposed the withdrawal of the 1 Re. notes and has stated,

> "In any event the saving would not be considerable and it is a mistake to regard the question as one of retrenchment. The primary consideration is that of the public convenience and the value of familiarising the Indian masses with the use of paper for monetary exchange."

After all, the loss arising from the 1 Re. notes is a flea-bite compared to the crores we have already lost, to the crores that are drained away out of the country and above all to the great tax which a high Bank rate imposes on trade and industry. The 8 per cent. and 9 per

cent. rates are causing greater loss to the country and if a large circulation of 1 Re. notes leads to a healthy expansion of currency and low Bank rate, it is worth incurring the expenses consequent on its re-introduction. Otherwise, we would be like the man in 'Cranford' who though he lost his all in a Bank failure, scrupulously economises in the use of the paper in his Pass Books and Cheque Books.

It is surprising how expeditiously this suggestion of the withdrawal of 1 Re. notes has been accepted without bestowing a minute's thought on the currency needs, though all the time the Finance Member talks of inflation and deflation. Or, have they withdrawn the 1 Re. notes in pursuance of the policy of deflation; and of creating stringent money market and of rigging up the exchange to a higher level? The same hurry is not shown in the fixing of the 1sh. 4d. ratio, but the sale of £2 millions gold is decided on in the twinkling of an eye.

Besides, we do not know what the future has in store, what world crisis will develop, or what effect they will have on the silver and gold prices. The more rupees are held in the form of metallic reserve, the greater will be the financial strength of India. Hence

the Government can try to increase its holding of silver coins to 100 crores by putting into circulation at least 10 to 20 crores of 1 Re. notes. Whatever it be, to prevent future gamble or loss in silver transactions, let the 1 Re. notes be re-introduced and any future purchase of silver may be obviated. Indeed, to prevent the counterfeiting of these notes in India, there is no harm if our notes are printed in England though, of course, not on the present usurious terms of the Bank of England.

As for gold, there should be a minimum of 50 crores of gold in the Currency Reserve and any addition to it must be welcomed if trade demands currency on a deposit of gold. In 1913 for a note circulation of 69 crores, the gold in the reserve was 38½ crores; in 1914, for 61 crores notes, gold was about 31½ crores or about 50 per cent. Now for a note circulation of 180 crores, the Government could not endure the sight of £24 millions gold but would pinch away even £2 millions out of it. On the other hand, to attain the proportion of 1913 and 1914, we should have a gold reserve of about 80 to 100 crores or about £60 millions instead of the present 33 crores—yclept 22 crores as a monument of colossal stupidity.

The Bank of England or the hidden hand behind India's finances need not still hamper the flow of gold to India, at least to the currency chest. Even from an Imperial point of view, a flow of gold to India will be of immense benefit. First, as Mr. Keynes himself seems to hold, world prices would come down if gold is allowed to flow towards the East, instead of accumulating in America. The second advantage is, instead of gold being in a foreign country like America, any increase in the gold holding of any part of the Empire would be available to England in times of crisis, just as 20 crores of our reserve gold was used for war purposes only after 1914.

The third benefit would be, if at any time of an adverse balance of trade due to famine or of any financial crisis, Government is not able to remit Home Charges, they can then rely on the Gold Standard Reserve fund, transferring a moiety of the Paper Currency gold to the Gold Standard Reserve in India and thus bring about a temporary deflation. Such a transfer would be feasible only when the Paper Currency gold reaches a decently high figure (i.e.), not less than £60 millions—which would be about $\frac{1}{3}$ of England's reserve and $\frac{1}{16}$ of America's, if

the latter's does not meanwhile increase. The present idea of transferring the 33 crores of Paper Currency gold to Gold Standard Reserve is simply preposterous. It will only be part of the Machiavellian policy of pinching whatever gold India has, by fair means or foul. If the Government were far sighted, it would not let slip this favourable opportunity of increasing its gold holding in the Currency Reserve.

I use such strong language only with regard to the misuse of the Paper Currency gold. But that I am not unreasonable will be evident from my views on the private acquisition of gold. Indeed, I would even suggest the levying of an import duty on imports of gold for private use and thus facilitate their being diverted to the currency chest. This must be augmented even with a restriction on private imports. Besides, at present no fear need exist that the free import of gold into India will affect the Bank of England's policy as in 1920.

The currency position should now be about 100 crores silver, 50 crores gold and 50 crores securities, and a note circulation of 200 crores. If additional gold and silver flows into the reserve it would not be mere inflation but a healthy expansion of currency and increase in

the monetary resources of the country. At no time should the Paper Currency gold be transferred to the Gold Standard Reserve as contemplated unless, as before stated, the gold in the reserve increases to £ 60 millions.

200 crores or more of notes in circulation will not be too much for a population of 320 millions with very little Banking habits. This aspect has been already dealt with under 'Paper Currency Reserve and Inflation.' It is enough to point out that for a population of 40 millions and with a high developed Banking system and in spite of an enormous use of cheques, the currency notes in circulation in England is £ 450 millions or about 650 crores of Rs. Likewise, for a population of 100 millions, America has a note circulation of £1,000 millions, or 1,500 crores of Rs. In these two countries, deflation is once for all discounted. It is here that we must reject the suggestion, though well-meant, of Sir James Wilson that there should be deflation to stabilise exchange at 1sh. 4d. gold. It is to be hoped the Government will not surreptitiously adopt any policy of deflation. Deflation is not what we want. That India is suffering from the results of inflation will be established only when the

rupee shows a permanent tendency to depreciate in terms of sterling pound or when the exchange rate is below 1sh. 4d. or even 1sh. 3d. sterling *for any considerable length of time.*

One great experience we have gained by the events of the last few years, is that Indian exchange need not be supported one way or other. Apart from the wild fluctuations of 1920, later on exchange was left to fluctuate between 1sh. 2⅜d. to 1sh. 6d. Leave exchange to itself is a maxim which the Government was vainly appealed to, to adopt in 1920; but which they themselves are preaching since then. In their crookedness, they take it as an argument for not altering the rate in the statute. But as pointed out before, a Paper Currency (Amendment) Act must be passed changing the ratio to 1sh. 4d. but without any obligation to maintain that rate officially under all circumstances. The Gold Exchange Standard has lost all its meaning, its terrors and implications, and Reverse Councils which did not function even when exchange fell to 1sh. 2d., we may take it, as such, is buried ten fathoms deep. It is an ugly expression which calls forth bitter memories and let there be no more resurrection of it. Exchange might fall owing

to famine, adverse balance of trade or other causes. Without the Government rushing to its support, they can benefit themselves and the country by carefully husbanding and utilising the Gold Standard and Paper Currency Reserve funds and Treasury Balances in London. Further sterling loans for mere Home Charges are unthinkable. That is why, repeated stress is made on strengthening the reserves in all possible ways when conditions are favourable. Gold Exchange Standard, hereafter, must be a misnomer as it need not mean any support to exchange and Reverse Councils as a financial operation may be scrapped, though under exceptional circumstances and with the consent of the Legislature, it may be revived—only if exchange falls below 1sh. 4d. sterling or, I would even hold, only below 1sh. 3d.

Why then, is there such a great reluctance to fix the exchange at 1sh. 4d. gold, though it might remain as fictitious as 2sh.? Is it because by keeping up the latter, they still want to help or subsidise foreign imports by having a high exchange and they still want to starve Indian trade and industries by means of a tight money market? The Government must be ashamed that 8 and 9 per cent. Bank

rate has become a common feature or a recurring evil. Do they still want to hold India at the mercy of English capitalists by refusing a timely expansion of currency? As for the adverse effect of high exchange, it is notorious that most of the benefit is reaped—leaving alone England—by such countries as Belgium, Germany and Czecho-Slovakia with their vastly depreciated currencies. Should India be exploited even by foreigners—who are not of the Empire? Should not Indian industries be protected at least from these countries of depreciated exchanges? The present rise in exchange might benefit the remitters and every company or Bank with sterling capital announces to the great joy of its shareholders that a high exchange has increased their profits. The Services also might rejoice at this high exchange. But how India is to maintain her excess exports over imports to meet the 150 crores drain or invisible imports, under such high exchange conditions, is clean forgotten.

I have not entered into the realms of high-brow finance and currency whether gold standard should not be established and why the gold exchange standard should not be done away with. I have avoided any reference to it

though I might remark that any coin above 1 Re. for ordinary circulation will be too high for the masses of India. But all the objections that Sir Basil Blackett raises against fixing the ratio at 1sh. 4d. sterling or gold, will only make the position of those who demand the gold standard, the stronger. They may say, be done with the exchange standard, with its rise and fall, with its instability, with the inflation and deflation and with the manipulation of the exchange market consequent on this variable factor. All the pleas he has advanced will only strengthen the hands of those who want a gold standard. Whatever it be, it is to be hoped that no malign influences are still at work as in 1919-20 and no considerations of benefit to English industries and English capital have moulded their policies and that the India Office and the vested interests do not still cast their blighting shadows on Indian affairs.

CAPITAL AND FINANCE—BEFORE AND AFTER 1920

I

If our hand is withdrawn from the Indian administration, rot will set in.—Lord Curzon

But that the rot has already set in even under the rule of the supermen of the over-belauded I. C. S. will be plain to all who makes a careful study of the financial and economic condition of India after 1920. The following will show up what malignant spirit has been at work during the last few years :—

October 11, 1919. Bombay Port Trust Loan 6% debenture loan of 28½ lakhs. tenders 101.4. 11%. * * and the success of the recent Bombay Port Trust Loan even in a market agitated by huge company flotations.

November 1919. Very few of the industrial companies which have been floated in India in the past four or five months have had any difficulty in getting all the capital they asked for.

Subsequent to the Currency and Exchange muddle of 1920, a different tale is told :—

Sep. 21, 1922. Finance Special Committee, Calcutta Corporation, resolved to reject the tenders received for the debenture rupee loan of Rs. 51 lakhs at 7% for 30 years and to recommend a sterling loan for £500,000 at 6%.

Nov. 1920. Currimbhoy Woollen and Silk mills given up owing to tight money.

1922. Companies gone to voluntary or compulsory liquidation.

Let me give another set of contrast, this time from official reports themselves. The Currency report 1917-18 had the following :—

"Yet, notwithstanding these large borrowings by the state, and despite an active internal demand for money, there was at no time any recurrence of that acute stringency which has been an almost regular feature of Indian money conditions at certain periods of the year. Bank rates never exceeded 6%. * * The policy of the Government has throughout been to protect the market against any stringency * * ."

The Currency report of 1918-19 also stated,

"Nevertheless there was again as in 1917-18 a marked steadiness in the Bank rate * * . (There was) an absence of stringency in the

money market * * (and) a stabilisation of money-rates."

The same state continued in 1919-20 and the Currency report stated,

"It is noteworthy as evidence of the comparative lack of stringency in the Indian markets as compared with foreign markets that for a time, the rates of the Banks of Bengal and Bombay were lower than the rate of the Bank of England which after standing at 5% for about 2½ years was raised to 6% in November.

As the rake's progress began only then, for the earlier part of 1920-21 the Currency report recorded,

"It is interesting to observe that during this period, the Indian Bank rates were appreciably lower than the Bank of England rate, which practically throughout the year remained at 7 per cent."

But the effects of the Government policy were soon beginning to be felt and "in November 1920, the increasing monetary stringency in India became more pronounced." And the Currency report for 1921-22 bears witness to the full effect of the blast that blew over India in 1920-21. This report says,

"The Bank of England rate which for a year

prior to the 28th April 1921, had remained at 7 per cent was reduced on that date to 6½% until 4½% in March 1922.

There was at this time therefore a difference of 3½ per cent. between the Indian and English Bank rates and the Bank of England rate has been still further reduced to 3½ per cent since the close of the financial year. Similarly, the price paid by the British Government for Treasury Bills declined from £ 5·14·6 per cent on the 28th April 1921 to 2·17·11 per cent on the 31st March 1922. That such a difference in money rates can be obtained between two countries whose trade relations are so intimate is a remarkable fact. The modern tendency however is for the rates in India to exhibit less striking seasonal differences and this tendency should be strengthened by the recent formation of a central Banking institution. The maintenance of so high a rate as 8 per cent. in the present year for so long a period was due to special factors in which the Government position played a prominent part."

The above extracts show that within a period of 12 months only, so rapid a decline occurred, in the Indian Financial position. The condition of the Money market has still further

degenerated and now 8 and 9 per cent. rates seem to have become permanent features to throttle Indian trade and industry; whereas, the Bank of England rate has been either 3½ per cent. or 4 per cent. since then, and England has been overflowing with cheap surplus capital.

This aspect must be still further examined from the standpoints of the rate of interest for Treasury Bills or Government loans and of the price of gilt-edged securities. These have been dealt with to some extent in a previous chapter. Here it is intended to compare the position of India with England. Take the price of securities or rate of interest, from 1918 to 1920, India was in a better financial position than even England. After the Reverse Councils policy left a red trial of havoc and disaster in the name of deflation and account of the export of a much-needed capital, India sank to a lower level than ever before, whereas England rose on the crust of the wave of boom and prosperity. Already we have shown that Bank rates in India from 1918 to 1920 were lower than the Bank of England rate and the maximum never rose to more than 7%. Now, the English Bank rate is steady at 3½% or 4%

and Indian rate is, except for one or two months, oscillating between 6 and 9 per cent.

For Treasury Bills, the English rate in 1919-20 was about 6 per cent. and now about 2½ per cent. Look at the deterioration that had taken place in India :—

Treasury Bills rate.

	1919-20	1920-21	1921-22
6 months	97·8 to 98·2	97·4 to 97·12	96·15 to 97·5
maximum	5·13%	5·66%	6·31%

In England, after the war, except for a short period in 1920, the rate of interest was on the downward grade and the price of gilt-edged securities was rising. While the reverse was taking place in India under Government auspices, forsooth! The 5% Indian loan which was at 95 in May 1919 gradually declined until at last it reached the low figure of 77 and 78 in 1922. Meanwhile, the English 5% loan which was at 93 in May 1919, and though it declined to 87 for a short time, rose up and came to 99 or even above par in 1922. The 3½% Re. paper which was so high as 71 in April 1919, fell to 51 in December 1920 and till the end of 1922, never rose above 60. The 2½% British

consols for a time in 1921-1922 were even at a higher rate than the 3½% paper in India (i.e.), at 58 when the latter was only at 55. No wonder that English capital is increasing enormously; while what little money power India managed to acquire during the war, has been dashed off from her hands.

Turn to the rate of interest for Government loans :—

Before 1920		1920 and after	
	crores		crores
1917 5 %	22	1920 6%	46
1917 5½%	32		
1918 5½%	57	1921 6%	49
1919 5%	21¾	1922 6%	45

One would expect in the natural order of things that the rate of interest which increased from 4% in 1916 to 5½% in the next two years of war, but which came down to 5% after the war was over, should have gone still lower in 1920 to 1922 and should have been at the rate of 4½% or even 4%. What led to this rise in the rate of interest for Government loans in 1920 when there was no war? No wonder, the *Capital* had to remark, in October 1920, that 5% loan which was issued at 95 in

1919 "is unsaleable to-day at 82, since this year Government floated a 6% loan." Now 5% loans are raised with great difficulty and the response for 1924 loan is a meagre sum of 13 crores.

But Mr. Hailey tried to wriggle himself out of any inconvenient queries that might arise, by a piece of "terminological inexactitude." [To quote Mr. Hailey or Mr. Cook is a wearisome task; for they have, in the three years of India's misfortune, uttered such pious frauds and made so many contradictions that to expose them would force one compile another volume. I had an idea of having a chapter under the heading, "Messrs. Hailey and Cook convicted out of their own mouths," to show how deliberately defiant and callous they had become in the treatment of India's financial problems. It is a thing either for the better nature of England or for God to rectify. For between themselves, they have rendered the position too acute for tears, though the same tendency seems to persist still even under the regime of the new experts.] In his Budget speech in 1921, Mr. Hailey made the following admission :—

"In 1914 we were borrowing on a 3½ per cent.

> basis; we have in successive years had to offer 4 per cent., 5 per cent., $5\frac{1}{2}$ per cent. income tax free, for short term loans, and in the current year we were obliged to offer 6 per cent. income-tax free."

But in saying the above, Mr. Hailey did a mental acrobatic feat by jumping over the year 1919 and conveniently ignored that the $5\frac{1}{2}$ per cent. rate of 1918 slid down to 5 per cent. in 1919 and instead of lowering the rate still more, it was he who created the conditions for the increased rate. A month hence in April 1921, in his discussion with the Indian Merchants' Chamber, when requested that no Government loans should be at more than 6 per cent., he said,

> "I can only permit myself to say that we only went as far as 6 per cent. with the greatest reluctance and all our interests as well as yours, are concerned in reducing the interest charges on our capital issues."

But within a month after this undertaking, the 7% sterling loan was issued and how to reconcile this 'greatest reluctance' to 6 per cent. with the 7% sterling loan beats one's powers of credulity. This 7 per cent. rate was in spite of a warning given in the Budget debate by

the late Mr. Rahimtoola Currimbhoy that if any sterling loan be raised, it should not be at a higher rate than in India. And Mr. Hailey nothing abashed, went even to the defence of the 7 per cent. loan. But it was the same Mr. Hailey who spoke in a different strain when the Government was asked by Mr. Neogy M. L. A., to give an undertaking that the 150 crores loan for Railways should be raised as much as possible within India itself. He said,

> "Are we such children that he should actually prescribe where we shall find the cheapest market for money? If rates of interest are lower in England, would this House really desire that we should pay 1 per cent. more in India? Obviously we must raise the money, whether it is in India or whether it is in England or whether it is elsewhere exactly where we can get it cheapest."

Just the same sort of reasoning we hear now in the purchase of stores (i.e.), that of now saying that the Indian taxpayers' interests should not be sacrificed in giving preference to costlier Indian manufactures, though they bought in 1920 to 1922 and are still buying stores at a dear rate in England.

Before examining further into the sorry

plight in which India's money power has been left, we shall just revert to consider an important issue that should have arisen in 1920. The point is whether that was the time when capital should have been driven out of India and whether it was not the primary duty of Government to retain this capital within the country in view of the large outlay and programme of expenditure as outlined even in the Budget speeches. In 1918 Budget speech, Sir W. Meyer said,

> "Lastly when peace conditions permit the resumption of the Railway capital programme on a scale necessary to provide adequately for requirements, we shall probably find some difficulty in raising on reasonable terms, the amount of capital which would be required."

And in view of the success of the 1919 loan, he said,

> "It also justifies the hope that greater dependence may hereafter be placed on the Indian money market for the raising of the funds necessary for the development of our railway and irrigation works and it will likewise pave the way for the solution of the somewhat kindred question of the greater development of Banking throughout the country."

And in 1919, Sir James Meston, the then Finance Member, unfortunately for too short a period, stated in his Budget speech,

> "It is clearly of the highest importance that we should do all we can to retain and if possible increase, our new *clientele* and so foster the seed which we hope we have sown. In the first place, India, if she is to exploit to the full her vast natural resources, will require a large outlay of capital both by the Government and by private enterprise and for this purpose a steady stream of investment within India is essential. * * * We have many liabilities hanging over us in several directions; debt of an unproductive character which we ought to dispose of in order to facilitate a remunerative borrowing programme in the near future."

These liabilities were the Short-term Bonds, Cash Certificates and Treasury Bills, which he called as the nightmare hanging over the Government of India, amounting in all to about 150 crores. And he continued,

> "These figures show that apart from Treasury Bills, we shall have War Bonds to the extent of £13 millions falling due in 1920 and arrangements will then have to be made to meet

these in addition to finding further capital funds in that year. * * . Simultaneously, however, with finding the necessary sums for this operation, we shall, during the years over which it is spread, have irresistible claims upon us to raise capital for internal development, railways, industries, forests and the like."

Even Mr. Hailey made the following admissions in his Budget speech in 1920 :—

"The most important item is our capital outlay on railways, irrigation and Delhi. We hope to continue the progressive railway policy initiated last year and are budgeting for a railway capital expenditure of £18 millions in England and 4½ crores in India as compared with £18 millions in England and nil in India. * * Another very important item is the entry of £ 13 millions for the discharge of debt? From 1920 onwards our various series of War Bonds issued in 1917 and 1918, will mature, and for some years, their repayment will make a severe call on our resources; on August 15th next, we have to find over 19 crores for this purpose. * * * For 1920, altogether liabilities of £38½ millions."

"This is a heavy liability and our power to

incur the capital outlay proposed will depend to a large extent on the measure to which we can count on obtaining money through our rupee loan. We assume, for the present, that the Indian public will be prepared to take up our loan with something of the freedom shown in the current year * * * Should we be disappointed in this, we shall be obliged, however reluctantly, to curtail our capital programme."

"Our pre-occupations lie rather in the provision of ways and means to meet our capital liabilities. Our outstanding liabilities are not light, we are still carrying nearly 50 crores of Treasury Bills, and between 1921 and 1928 we have to meet 72 crores of short-term securities. Meanwhile our railways will not cease to demand fresh provision of capital money and we have heavy irrigation projects in view. The solution of the problems of the future depends therefore on the growing accumulation of capital wealth in India and the interest which the Indian money market evinces in our loan issues."

In addition to these official admissions, there were other more urgent problems waiting for "the growing accumulation of capital wealth

in India". Take the fact that the Industrial Commission had then only submitted its report and that an officer was placed on special duty in January 1920, to study and work out on definite lines the recommendations of the Commission. The Railway Committee was appointed in 1920, and it was a reasonable expectation that it would propose a large outlay on railways. The Imperial Bank Act was thought of early in 1920 and it was passed in September 1920, the primary object being, by the amalgamation of the three Presidency Banks, to develop the financial resources of the country. The Fiscal Commission which would certainly put forth definite suggestions for the development of industries in India had its basis on the money power of the country. During the course of the Budget debate in 1920 March itself, Sir Claude Hill admitted that Irrigation Projects costing 60 crores capital outlay were "sanctioned, under sanction or under consideration." Again, I find from the recent Budget speech of the Bombay Finance Member that all their Development schemes and Irrigation projects like Sukkur Barrage were under consideration in 1919 and some of them were under correspondence with the Government of India

and the Secretary of State. Add on to all these, the fact that the Afghan war cost India about 24 crores and was responsible for the deficit of 1919–20 and for most of the outstanding Treasury Bills of that year.

Now, making an estimate of the total capital expenditure, we find that, at least, 500 crores would have to be found from 1920 onwards. Besides, there were the innumerable Companies that were started in 1918–19 and 1919–20 with only a fraction of their capital called in and the rest left for future calls and that could only flourish on cheap capital.

With all these 'preoccupations' to use Mr. Hailey's word, should they have aided in the flight of capital or conserved it? Or, was Mr. Hailey speaking through his hat or with the tongue in his cheek when he pretended to recognise the urgent capital needs of the country? Was that the time, was it in consonance with all those needs thus outlined, to drive away a much-needed capital? In England, the Cunliffe Committee was appointed,

> "With a view to preserving capital during the reconstruction period for essential undertakings in U.K. and to preventing any avoidable drain upon foreign exchange by the export of capital."

Here, as in all things, quite the opposite was taking place. The Reverse Councils were set in operation, and capital was exported. In the picturesque phrase of Mr. Lloyd George—and more appropriately here than anywhere else—"the Western sky was black with the flight of capital." Not content with that, deflation was suddenly put into execution to the extent of 40 crores first and then 40 crores slowly later on, as if India had 500 crores of notes in circulation with a metallic reserve of only 100 crores, as if the Indian exchange was at 1sh. or 9d. and to remedy this depreciated exchange, this inflated currency needed to be reduced to a healthy limit.

What was then the object of all this queer transaction, suicidal from the point of view of the Government and leading to economic infanticide or economic Thuggism from the point of view of the people? Was it their object to so denude India of the capital accumulated in the war years as to drive her again into the arms of English capitalists and bondholders? Their object is as plain as a pikestaff. They were alarmed at the growing monetary strength of India and were getting nervous that India would become independent of foreign capital

for all time to come. As Sir W. Meyer observed with pride (*vide.* quotation page 63) not only was previous sterling debt repaid, but India was able to raise her own loans to the 'gigantic figure of £65 millions' or about 100 crores in one year. In addition to these Government loans and Treasury Bills and repayments to the extent of £ 80 millions of the contribution, the country was able to provide the capital for all the companies floated and industries started before 1920, and especially for the mammoth concerns of the Tatas.

All this was too much for them. The Reverse Councils came in as a handy weapon to deliver a knock-out blow on the ambition and the capacity of India to be independent of foreign capital henceforth. In this, they succeeded beyond their most sanguine expectations. Within 6 months of Reverse Councils came the 7 % sterling loan and in its wake about £ 100 millions of loans and debentures fell on the London Market,

> Thick as autumnal leaves that strow the brooks
> In Vallombrosa.

If Reverse Councils had not been sold, not only would the rate of interest for rupee loans be lower but all sterling loans would have been

avoided. Besides, there would not have been that tightness of money market so as to force companies into liquidation or to suspend all fresh activities and expansions. There would have been enough money to finance all railway requirements and the whole of the 150 crores recommended by the Acworth Committee could have been found within the country itself. It would have been possible to float companies in India with rupee capital to take over the E.I.Ry. and the G.I.P.Ry. Personally, I would have no objection to Company management of railways if all the capital could be found within India itself. As things are at present, even if an Indian Company with rupee capital be started to take over these railways, most of the capital will be foreign and will have flowed to India then. When Sir Charles Innes shows such over-enthusiastic predilection for company management of railways with a rupee capital, we might ask him whether he does not lament that Reverse Councils had, by draining the country of its capital, made it impossible for his pet schemes to fructify, or if he still persists with the scheme of company management of railways, whether he does so feeling sure that most of the rupee capital would still have a

foreign origin. So early as 1921, a year after the exchange and deflation muddle, Sir Thomas Catto and Sir Narcot Warren, these two financiers, stated that there was not enough capital in India to finance all the railway schemes, not even to float the companies for taking over the E.I.Ry. and G.I.P.Ry. I would like to ask them in all humility whether they would have given out that opinion if there had not been that madness of deflation and that flight of capital.

More than anything else, it is when we consider the plight of the Tata concerns and when we recall the strange and sordid huckstering over the demand for the restriction on foreign capital in India, that we are tempted to be in a cursing mood like Queen Margaret in 'King Richard III'. It will be in the pleasant recollection of all that when the Tatas floated one concern after another, all the capital was subscribed within the country itself; and later on, all the debentures and preference shares. But now, the Tata Industrial Bank, the Sugar Corporation and the Oil Mills have come to grief, thanks to European or, their cousins, American management. Was there any rejoicing as in the case

of the People's Bank? The Tata Iron & Steel Co. and two of their hydro-electric concerns have been forced to go to England for fresh capital, at a high rate of interest. While the most pitiful thing of all is that the Koyna valley scheme, that grand hydro-electric project with its auxiliaries of numerous metallurgic and chemical industries has been shelved; and if it be floated at all, most of the capital will of course be snapped up by foreigners, including Americans.

While I was recently reading the book on 'Tata Iron & Steel Company' by Lovat Fraser, for the first time I learnt that the late Sir Ernest Cassel, the multi-millionaire, was also on the hunt for the iron mines of Central India and that he was almost on the track of the Tatas. There arose a lump in my throat and I don't think I ever galloped through a book so fast as through this, until I heaved a sigh of relief on finding that Sir E. Cassel was thrown off the scent and was digging away in the Central Provinces. It was of course a piece of good fortune to India, but of what use, thought I. This Samson amongst Indian Companies has been delivered over bound hand and foot and there is great rejoicing in the land of Gaza.

The foreign capitalists might now declare that the Tatas have not escaped their clutches and that at least £4 million debentures which would be the first to annex the net profits have been forced on the Company. And the Company would not be in such financial difficulties if there had not been these debentures at a high interest and if its working capital had been found within India at 5 or 6 per cent.

Here, one remark must be made. It was rather ungracious on the part of Sir Dorab Tata to have been rather curt with the shareholders when they asked why £2 million 7 % debentures were raised in England. He should have remembered that the very same English capitalists proposed impossible conditions of control when the Tatas first applied to them for financing the Iron & Steel Co. He should also have remembered that in spite of the boasted European management, the Tata Industrial Bank was treated as a Pariah concern in the discount market of London by the other Exchange Banks. What a pity then, that our national concerns should again fall into the hands of these murky dwellers of the financial underworld in London; part of the blame attaching to the Tatas themselves for their indifference or slack management.

The Tatas themselves have alienated much of the country's sympathies. They have proved somewhat ungrateful to the splendid loyalty and support accorded to them by the whole country and thus thrown away a good legacy. They have ignored the demand for Indianisation of their concerns and less costly management. Poor Mr. M. J. Antia, he was laughed to scorn when he wrote on the above. He must now be feeling like Cassandra. But they have proved too gullible and have fallen a prey to any European, American or Jewish adventurer and that too, of a very covetous type. In 'John Bull's Other Island' Bernard Shaw says, the Englishman would prove an expert liquidator. I do not know whether some of them are not itching to become liquidators; for, look at the market value of the ordinary shares of the Tata Iron & Steel Co., the Tata Power Co., etc.

Under more honest conditions such concerns as the Cement combine working in Bihar and Orissa with a capital of about 2 crores, the Swedish Match combine with a capital of £2 millions, the United Steel Corporation of Asia, the supposed rival of the Tata Iron & Steel Co. with 20 crores of authorised capital, would have

found it cheaper to raise capital in India. Ceylon, Straits Settlements, and Siam etc. would have also raised their loans in India itself. All that was not to be. While capital in India has been placed in such bad plight, more or less deliberately, a crank is reported to have said in the Legislative Assembly that Indian Labour does not care whether it is Indian capital or foreign capital that is employed in India. To the danger of irrepressible Moulvies and Swamis dictating our politics, as mentioned by the *Times of India*, we must add that of cranks —omniscient and self-opinionated—posing as experts on every question. This man forgets the record of foreign capital in Bihar, Assam, Fiji, etc. To the impedimenta which this unfortunate country is carrying, will have to be added the tyranny of the Moulvies and Swamis and cranks, and in the last case, the mischief is the more to be deplored as the Government may, more often than not, listen to their views though inimical to our national interests.

If it be said that let bygones be bygones and that there is no use crying over spilt milk as Sir Charles Innes would say when anything goes wrong, the future outlook too on the conservation of the capital resources of the country

is not promising. Sir B. Blackett does not seem to have realised the need for the growth of Indian capital, and as if he were an instrument of the vested interests of the modern Babylon, still harps on the need for foreign capital. Both in his speech in Bombay and in his truculent reply to poor Pandit Malaviya, he maintains that India has not sufficient capital and that foreign capital cannot be barred or denied entry. Supplementing the forceful and cogent pleadings of Pandit Malaviya, I shall in all humbleness present Sir Basil with three or four considerations. The first is, India has been deprived of her capital and this has been so ruthlessly destroyed that any one who compares the position before and after 1920, can very well exclaim with the poet,

> Into what pit thou seest
> From what height fallen.

Hence, they can unbend and relent hereafter at least. And it is not India's fault if she has very little surplus. The fault is others and her situation is not of her own seeking. They now shed crocodile tears and say India has not enough to finance all her requirements.

The second is that which is ever present in the minds of English statesmen and financiers.

To give two or three examples, Mr. Winston Churchill stated in 1919,

> "Debts we owed to ourselves being within the boundaries of our own country could be adjusted without causing any impairing of its economic energy."

Sir Robert Horne, the Chancellor of the Exchequer in 1921, said in the House of Commons,

> "As Mr. Chamberlain said in making the Budget speech of last year, the transformation of external debt into internal debt is a definite gain to the national wealth. (Cheers.) We are paying our interest not to people outside the country but to ourselves; and, in this connection, it is gratifying to be able to record that, in the three years since March 1919, we have reduced external debt by no less than £ 274,666,000."

Sir William Joynson-Hicks declared a year or two ago, that "we have wiped off all foreign debt except the American" which was to be funded and that the internal debt and the interest thereon have also been reduced, thus bringing about much saving to the taxpayer.

Not merely in these Governmental loans, but in private loans and investments, a strict and beneficent national policy is pursued in England.

Thrift is encouraged, capital is allowed to accumulate and with that view, the income-tax has been reduced from 6sh to 4sh. 6d. in the £ and Excess Profits Duties and Corporation Taxes have been abolished. And deflation has been dropped once for all; on the other hand there is talk of inflation. England is overflowing with surplus capital and this is seeking investment in all corners of the globe. Indeed, there is a rivalry between New York and London as to whose loan issues and foreign investments are the larger; and England is boasting that her loan and capital issues excluding Government loans have been at the rate of £300 to £400 millions per annum after 1920.

We shall then make a present of all the above to Mr. Hailey of 1920—22, who seemed to have welcomed and even considered the raising of sterling loans as inevitable, and to Sir Basil Blackett who, as the lineal inheritor of Haileyian policy, does not seem to have cut himself away from it. The quotations from Sir R. Horne and Mr. Churchill might also be presented to our irrepressible and all-knowing crank.

And we must ask Sir Blackett whether he has not noticed the utter absence of any big company or industry started after he came

here. Not only have trade and industries been shorn of capital but all new industries and expansions have come to a dead stop after 1920. Even the existing ones are struggling to live; while, the response for Government loans is getting feebler every year. What would they not have done in England under such circumstances, the Board of Trade or the Treasury? If he cannot take a comprehensive view of all this, all we can say is, he is not a 'labourer worthy of his hire.' Or, has our expert become petrified in the refrigerating chamber at Simla?

The third point is, are you not satisfied with the havoc caused after 1920, with the large inflow of foreign capital and loan to the extent of £150 million or 225 crores, for aught I know, since then. Or, do you want to perpetuate this system and make India a permanent economic slave, with her people drudging for bare maintenance while all their surplus savings and produce are being drained away in the shape of profits and interest, leaving them with a miserably low national income? On the other hand, English capital has had its fill in India and it is time its representatives here adopt a cleaner and more honest method. Hence, to stop this present impasse, it is necessary

to change the Currency Act, and thus increase the monetary resources of the country. At least, for the sake of providing the country with cheap capital, this legislation must be passed; else we must hold, the authorities are still in league with powers of Evil.

Besides, the capital requirements of the country are as acute as ever, and of the 500 crores of the then expected capital outlay, not even 150 crores have been spread over the various projects or have been utilised. Still, Viscount Peel seemed to have thought, though rightly under the then prevailing circumstances, even 150 crores as too much and in his despatch on Provincial Finance, he stated,

> "It is clear that an attempt to carry these through in full will place an unduly heavy strain upon the borrowing resources of the country as a whole and the Provincial representatives were warned that all-India interests might necessitate the postponement of many of the schemes for expenditure debitable to loan funds which Provincial Governments desire to take in hand."

He was naturally alarmed at "the very considerable capital expenditure to be financed from loan funds" which come to another 150

crores spread over 8 years or a capital expenditure for the Provinces of about "18 crores per annum." Undeterred by his sound advice and perhaps even winked at by the Government of India officials whose strange views on indige nous versus foreign capital have already been referred to, the Provinces are going on with their programme.

The remedy is not that of curtailing their capital expenditure, but of expanding and cultivating the Indian money market, unless some ignorant or unprincipled men still think of increasing our sterling obligations and rushing to England for loans. I shall not speak of the unprincipled individuals; but of the ignorant folk. For example, the Law Member of Madras who is also in charge of Irrigation and Hydro-Electrics—one of those Indians to whom Sir Michael O'Dwyer's description as not being commercially-minded might apply—declared with great gusto, as if he made a new discovery, that their projects could be financed under the credit scheme of the Board of Trade in England. I do not know under which class to put those who have told some of the District Boards of Madras, 'hands off those Railway projects as they will be constructed as main line out of

the general loan funds'. The District Boards have enough funds to construct these Railways. One does not therefore understand this new policy. Does it mean that it is but a method to encourage foreign or sterling capital? Besides, when there is so great a demand on capital, one fails to follow the logic of not welcoming and utilising this additional capital of District Boards to relieve such a strain. This is really disgusting.

Next only to the settlement of currency and exchange, in importance is the question of finding money for the 300 or 400 crores of capital expenditure. The Government of India have got their own urgent needs which are the repayment of 30 or 50 crores in 1925 and 1926, and other like repayments in later years, and capital expenditure on Railways. The Provinces are clamouring for funds; Sukkur Barrage (22 crores), Sarda (two projects 12 crores), Sutlej (18 crores), Cauvery, Tungabhadra, Krishna, etc. The Municipalities, Port Trusts and Improvement Trusts have got large schemes—not to speak of that white elephant, Bombay Development—and unless they begin another rage for sterling loans, they must be provided with rupee funds; Bombay Municipality wanting

5 crores and Calcutta Port Trust 5 crores to give these instances. Besides, there is the demand of companies and industries, and of such schemes as Howrah Bridge (6 or 9 crores) and Tube Railways (3 crores).

Hence, if our Finance Member were a conscientious man, he would pass sleepless nights till he initiates some wholesome change in the financial policy of the Government unless he is intent on allowing a second sweep into the maw of English capitalists and Bankers by keeping up a tight money market. The solution is near at hand, but what myopic vision deters them, we do not know. Anyway, there should be no more occasion for that pessimism which Sir Narcot Warren and Sir Thomas Catto felt, nor should it be possible for such a melancholy remark to be made as that, by the Committee on Howrah Bridge. It writes,

> "But if the money is to be raised in India they doubt if a rate of interest below 5 per cent. will be feasible in the near future."

Of course, in the wake of cheap capital, such swindles as the Anglo-Oriental Navigation Co. should not be allowed to crop up and there should be legislation to prevent such poisonous outgrowths.

Let me hasten to say that I am no hater of foreign capital. I welcome the foreign capital invested in tea, jute, coal, Railways, etc. Only, it should not be of the type of Assam Plantations where labour grievances are a recurrent feature. The Assam Tea Companies have been paying dividends of 50 to 100 per cent. and still they drove their labourers to virtual penury and distress in 1921. The Assam corner is a plague spot so far as labour's position is concerned. Add to the above, their incessant desire and struggle to escape the income-tax or tea duty, an inglorious effort to avoid paying their just quota to the public purse.

Next come our friends, the Railways, with most of the capital in it being foreign. They do so little for the comforts of 3rd class passengers but they are paying such high dividends as 8 to 16 per cent—a thing unheard of in the railway systems of any other country. Here is a case in which a restriction should be put on the amount of profit or dividend, and this foreign capital should not be allowed to fleece India—here too with the connivance of the Government.

I wonder whether the public are aware of a big foreign company trying to swallow an

Indian company just as a big fish gulps down a small fish. The scandalous nature of it has been revealed by Mr. W. S. J. Willson in the most forcible speech ever made in the Assembly—perhaps with the exception of Captain Sassoon's. Mr. Willson has attacked the contract made between the Burma Oil Co. on the one hand and the Tin Plate and Tata Companies on the other, and has definitely charged the former as having made a one-sided bargain to the utter ruin of the latter. One's blood will really be up after reading that speech, if it is true to fact, the exposure of all the cunning and greed behind this transaction. The evil of unrestricted foreign capital will never be more fully realised than by a study of that debate. Will it not lead one to think that Bolshevism is not after all a terrific thing, not a parent of monstrous brood of evils? Repudiation and Bolshevism are the natural offsprings of such capitalism. The one begets the other. If Bolshevism or repudiation is violent and unmoral, certain types of capitalism are grovellingly, excruciatingly mean. Whether 'our friend' the Burma Oil Co. is so or not, it is left for impartial people to judge. But still, it will be for the legislature to examine whether

the Burma Oil Co. should be allowed to take over £4 millions profits each year, whether some restriction should not be placed on its profits and whether the taxes and royalties cannot be increased. If any foreign capitalist harrasses Indian concerns or Indian labour, it is up to the Legislature to find out means of harrassing such alien capital, if not by repudiation. I am quite sure that in this case cited by Mr. Willson, the League of Nations itself will declare repudiation as the only remedy. What ever it be, ill-gotten wealth as in the other cases mentioned in this book, will come home to roost.

I shall conclude this section by quoting what I wrote formerly :—

> "The Indian financial plant, after a long drought, got some little moisture during the war and there began to sprout out tender buds and branches when the blast of jealousy came and laid low the plant. Since then, the sap is mournfully withdrawing towards the roots waiting for better time to come."

The plant is not altogether dried up. There is still life in the roots, which can be stirred into activity by God-like watering and manuring.

II

To write on the Budget and Finance of India during the last few years would be a fit endeavour for a separate volume and it is not intended here to cover the whole field except to point out as to how far there has been departure from strict canons of finance and the effect the currency policy has had on the Budget statements in general. To some extent, this has been dealt with already.

As in other respects, there has not been much or even anything at all to complain in the Financial policy during war years except for the feeling that Social Services have been neglected. To criticise that period would be an act of wanton querulousness. It may even be granted that the Afghan war was inevitable and that the expenditure incurred in it was unavoidable—subject of course to the objection raised by Sir Dinshaw Wacha as to the extraordinary extravagance and wastefulness with which that campaign was conducted. The great war was over in November 1918 and till 1920, there was not much that one could describe as mismanagement.

Our troubles began after that date. It is a

piece of hyperbole when Sir Basil Blackett says in 1924 India has had her taxes increased by 53 crores only since 1914 and England, by about £500 or 600 millions. When he makes such a comparison, he foregets some important issues. Firstly, there is the fact that England is so enormously wealthy—and since 1914, in spite of this huge sacrifice, effort and taxation, she has increased her wealth by 50 per cent.—that this taxation sits lightly on her; and India is so miserably poor that even an additional 50 crores of taxation is proving far beyond her capacity to bear. Would to God India had been able to meet a taxation of £200 and 300 millions, if not £500 or 600 millions! It will be a day of rejoicing when India is in a position to raise such huge sums out of her wealth and plenty.

The second and more noteworthy flaw in his plea is, the increase in taxation in England occurred during war years; and since 1920, there has been a gradual reduction in taxation. Whereas, in India, of the 53 crores, only 12 crores were of the war period and 41 crores were the increase in taxation after 1920. To render the contrast clearer, let me quote from the *Times*. After proudly labelling for three consecutive years the British Budgets as

"First-rate Finance", the *Times* wrote in May 1923,

> "There are sound reasons for the upward tendency of investment stocks. It is the inevitable outcome of a financial policy which has already lessened the burden of debt, abolished E. P. D., halved the corporation tax lowered the income-tax from 6 sh. to 4 sh. 6d., reduced the taxes on beer, tea, coffee, and cocoa, cheapened postal and telephone charges and brought about a substantial reduction in the general level of prices, besides restoring the gold value of the paper pound."

It added that the policy which "did all this" and "which reduced the cost of borrowing for all classes is worth sticking to". And, consistently with the above, the *Times* while reviewing Indian Finances in an unusually generous mood, wrote in January 1924,

> "That country has some cause to complain that the severe economy practised by successive finance members was forgotten from 1918 to 1923, for the Inchcape Retrenchment committee was able to recommend economies amounting to £13,000,000 a year. * * * One of the most urgent duties of the Government of India is to keep expenditure within the present scale of taxation."

But it is the very same *Times* that wrote in July 1924, under the heading, "The Indian Services" 'Parsimony of the Indian Nationalist' as follows :—

> "To those who enlarge on the addition of over a crore of rupees to the Indian Budget, the hard-pressed officials can retort that that sum is being annually spent on the palatial buildings of the New Delhi, which few of them are likely to inhabit and that a Frontier policy, the wisdom of which is disputed by many experienced soldiers and administrators, has added many crores to recent Indian deficits."

It is a wonder how the *Times* came to express such a self-contradictory or mutually destructive statement. It is not the parsimonious Indian Nationalist but the so-called "hard-pressed officials" that were responsible for the ignoring of "severe economy" "from 1918 to 1923" for the construction of the New Delhi, for the Frontier policy, and—I might also add—for the Currency and Exchange experiment with its attendant losses. Or, is the demand for the one crore of rupees, a reward for all the above? Here, it must be acknowledged that the *Times* led by its able correspondent, Mr. Arthur Moore, once in its career, struck the vein of

rare statesmanship, and has set its face against the Waziristan and Frontier adventures from 1921. All the same, we might remind this mirror of English thought—which, unfortunately, more often distorts than otherwise—that between these two Services, Civil and Military. India has been mulcted heavily and hence, all the deficits and additional taxation. The chief gravamen against them is, as I have already observed, the moment they incurred or invited these losses of 1920, the Government of India should have drawn in its horns from other ventures. Instead, the whole affair has the appearance as if the Civil Services said in 1921, 'we have had our innings and we shall stand aside, while, you, Military Services, have your innings of extravagance and waste without any fear of interruption from us.'

This digression apart, we shall just consider and contrast the increase of taxation in India as against the decrease in England; in other words, growth of expenditure here as against a determined effort to cut down expenditure in England.

1921. The main increases of taxation were :—

(1) General ad valorem duty on imports from 7½ to 11 per cent. (including cotton goods).

(2) Ad valorem duty on certain articles of luxury from 7½ to 20 per cent.

(3) Sugar import duty from 10 to 15 per cent.
(4) Import duty Tobacco 50 per cent. and cigars and cigarettes from 50 to 75 per cent.
(5) Increase of duties on liquors and spirits.
(6) Duty of 12 As. per gross match boxes.
(7) Increased railway rates or surcharges on certain goods.
(8) Slight increase in postal rates.
(9) Increase in higher grades of income-tax and super-tax.

1922. Increases in taxation this year were :—

(1) General ad valorem duty on imports from 11 to 15 per cent. (excluding cotton goods).
(2) Ad valorem duty on imports of luxury articles from 20 to 30 per cent.
(3) Sugar duty from 15 to 25 per cent.
(4) Import duty on machinery, iron and steel, and railway material from $2\frac{1}{2}$ to 10 per cent.
(5) On matches from 12 As. to Rs. 1-8-0 per gross.
(6) Duty on cotton yarns 5 per cent.
(7) Kerosine, excise duty 1 As. per gallon and import duty from $1\frac{1}{2}$ As. to $2\frac{1}{2}$ As.
(8) Further increases on liquors, spirits, etc.
(9) A general all-round increase in all railway rates instead of surcharges on some items.
(10) Increase in passenger fares by 25 per cent.
(11) Half anna for post cards and 1 anna for letters.
(12) And further increases in income-tax and super-tax in the higher grades up to 18 Ps. and 6 As. respectively.

1923. Doubling of the salt tax from Rs. 1-4-0 to Rs. 2-8-0.

1924. Proposal to continue the increased salt duty and for some reductions in some unimpor-

tant items; but all were withdrawn due to the throwing out of the Budget by the Swarajists.

At a glance one could see that no margin of taxation has been left and that everything—salt, kerosine, cloth, matches, railways, post—has been swept clean into the tax-gatherers' net. Of course, some small mercy has been shown in remitting the increased salt tax and for this relief, much thanks. While such has been the case here, in England, under the continued pressure of public opinion, from 1921 onwards, there have been a series of reductions in taxation and this has been effected mostly with a view to lift the burden of taxation from trade and industry. The response of the Government in England to the needs of business is something to be greatly envied. The extract from the *Times* has already given a glimpse of the satisfying nature of British Budgets. From 1921, the reductions in taxation were :—

1921. Excess Profits Duties abolished.

1922. Income-tax from 6 sh. to 5 sh., duty on tea, cocoa, coffee, etc., lowered by one third, postal charges and telephone charges reduced.

1923. Income-tax from 5sh. to 4sh. 6d., corporation tax from 1sh. to 6d., excise and customs on liquors and drinks reduced, further reductions in postal and telephone charges.

1924. Corporation tax abolished, further reduc-

tion by 50 per cent. in tea, sugar, coffee, raisins, etc., and McKenna duties on certain luxury articles repealed, further decrease in telephone tax.

In 1924, they were therefore able to record that "one by one, the new taxes imposed during the war are being repealed," that a cheap breakfast table has been provided, and that "the entertainment tax is the only new tax levied during the war still on the statute book". Side by side with all this to save enterprise from burden of taxation and rates, railway rates and fares were reduced in England by about 25 to 50 per cent. All this was mainly due to the efforts of industrialists like Sir Eric Geddes who first put forth the demand for severe retrenchment, who began the crusade against the blighting effect of oppressive taxes and rates on the industrial expansion of the country and who declared "taxation is killing industry." Not only was there great reduction in expenditure, but the expenditure on Army, Navy, etc., has been reduced by about 50 per cent. In spite of all these reductions in taxation they have been able to allocate £ 40 or £ 45 millions towards the Sinking Fund annually.

Search all our Budgets for any such recognition of the requirements of trade and industry

or of the effect of these continued increases in taxation on them. They themselves precipitated conditions of acute trade depression by their ill-considered action and as if not satisfied with that havoc, they have followed it up with a series of taxes and duties culminating in the increased railway rates and fares. How inconsiderate our experts are is clear from the fact that when the country is groaning under the weight of taxation and of chaos and depression in trade and industry, they propose sacrifices of revenue or reduction of taxation under such items as the export duty on hides and skins or the petrol excise and import duty or the import duty on piece-goods. To me, it appears that the separation of Railway Finance from General Finance holds out no prospect of reduction in railway rates and fares, and, on the other hand, it seeks and is designed to perpetuate the present schedule without any idea of affording relief to trade or to the people at large.

As if all these were not enough, the Provincial Governments and Local Bodies including Improvement and Port Trusts, have increased their expenditure and have put more burdens on the general taxpayer. The Provinces have

increased their taxes and duties on Excise, Stamps, Registration, Court Fees, etc., and have levied Entertainments tax in addition. The Local Bodies and Port Trusts have increased their duties, cesses and rates. To this ever-growing list, must be added the annually increasing Land Revenue. The resettlement operations are always at work and ever on the move, and one district or another comes under the hammer every year, if we may say so. More even than trade and industry, agriculture bears the largest burden. It has not only to meet 50% of taxation in the shape of land revenue but it has to meet a multiplicity of rates and cesses—not to speak of the effect of increased railway rates and fares on the agriculturists as even admitted by the Bengal Chamber of Commerce. One correspondent in the *Hindu* writes as follows:—

> "The number and amount of taxes which one has to pay to Government, * * is staggering. The land tax, the encroachment tax, the stone tax, the water tax, luckily no air tax, no poll tax as yet, the income tax, the house tax, the road tax, the drainage tax, professional tax and educational tax and what not, all this make one feel whether Government has

not converted a mirasdar and a citizen as a mere tax-paying machine."

And Rao Bahadur C. S. Subrahmanyam, an Ex-M. L. A. and Mr. T. V. Seshagiri Iyer also gave a catalogue of the various burdens on the agriculturist while writing on the Tanjore resettlement, like the various land cesses with their automatic increase, the percolation tax, or tree tax, etc. [Especially, this percolation tax though small in its incidence is the last word in Governmental covetousness, is a masterpiece of cynicism. In America, the Government gives a bonus for tree planting and tree rearing. Here tree growing is not even like virtue being its own reward; but it has to meet a tax in addition. Perhaps, this tax finds a place in Kautilya's Artha Shastra according to its modern commentator, Sir Charles Todhunter who has hence blossomed into a taxation expert.] This apart, the grievance against heavy local taxation has, strangely enough, been borne out in an official *communique* itself. The Madras Government in an order to the Local Bodies, has stated as follows :—

"The Government consider that, in a year of financial stringency, Local Boards will not be justified in incurring heavy capital expenditure

from general revenues. They have also decided that compassionate grants shall in future be confined to Local Boards which have made a serious effort to balance their budgets by restricting expenditure and by levying all the taxes at the maximum rates, and have failed to do so."

The Local Boards have been forced to levy the taxes at the maximum rates and to tighten the screw still more on the poor taxpayer. The *New India* rightly demanded that "it should be looked into that the maximum rates are not unfair." Incidentally it may be remarked that the greatest sinners "in incurring heavy capital expenditure in a year of financial stringency" have been the Government of India and the Provincial Governments like the Bombay Government with its Development mania.

No wonder that this aspect of all-round increase of taxation is now attracting attention more than ever. Mr. J. A. Wadia, the well-known Mill-owner and economist of Bombay, in a letter to the *Times of India* wrote asking,

"Why we are paying in taxes between central, Municipal and Provincial Governments including Railways, a hundred crores more per annum than we did five or six years ago, * *

> why railway charges have been reduced in England by fifty per cent. while our charges remain the same, etc. "

So then, it is clear that the increase in taxation during the last few years is fifty crores, by the Central Government, and another fifty crores by Provincial Governments and Local Bodies. The result is economic ruin of the country and starvation of the poor. Apparently, the word has gone forth, "Leave nothing in the pockets of the people."

But more serious than all is the indirect taxation caused by deflation and dear money. With Bank rate at 8 and 9 per cent. and trade bills discounted at higher rates, one cannot estimate what additional indirect taxation trade and industry must be paying, whether 10% or 20%, and how much more it is than if the Bank rate were 4%. As Mr. J. A. Wadia put it, " it is a truism to say that dear money is a tax on trade and industry including agricultural industry." Here, I might mention that at the time of the controversy on Tanjore resettlement, I wrote suggesting that the effect of deflation and dear money on the capacity of agriculturists to pay should not be ignored ; but the quidnuncs of our patriotic press would not

'publish it. I repeat that the conditions of money market should also be taken into account in any resettlement operations. The Inspector-General of Registration of Bombay—unlike the Inspector-General of Registration of Madras who is too busy carrying out the mandate of the hymn of hatred against the poor Brahmins to consider the effect of deflation on Non-Brahmin merchants and agriculturists—has, in two successive reports, discussed this question and has stated that deflation has hit hard the peasantry; that the price of land has fallen considerably; that their holdings have more or less become unmarketable; and that, in the purchase and sale of lands, the agriculturists have been put to considerable trouble. Since most of the agriculturists are in debt, the cumulative effect of all these—high taxation, direct and indirect, resettlement operations, perhaps even high exchange—can be better imagined than described. It would be therefore an act of mercy if railway rates and fares, and postal charges are reduced and if the Bank rate is not allowed to rise above 6 per cent. at the most.

Now, to revert to Budgets proper, it may be said that the deficits were inevitable and that there was no alternative but to increases of

taxation. The following table shows the deficits :—

ACTUALS. [IN THOUSANDS OF RS.]

Years.	Revenue.	Expenditure.	Surplus + Deficit —
	Rs.	Rs.	Rs.
1913—14	81,32,71	77 85,85	+ 3,46 86
1917—18	1,18 70 58	1,06,57,52	+ 12 13 06
1918—19	1,30 40 66	1,36 13,72	— 5 73,06
1919—20	1.37.13 98	1,60 79,27	— 23 65 29
1920—21	1,35 63,32	1,61 64,17	— 26 00 85
1921—22	1,15,21,50	1,42 86,52	— 27,65 02
1922—23	1,21,41,29	1,36,43,05	— 15,01,76

Thus 100 crores of deficits have occurred in five years. We could easily reconcile ourselves to these deficits if they had been due to projects of social welfare or if they had contributed to the economic well-being of the people. No, as a deeper study of the Finance Accounts would show. In 1919, Sir James Meston said,

> "We shall have to launch into very heavy expenditure for the education and well-being of the people, without which our political progress would be largely nugatory."

That almost nothing has been done in this direction may be known to all and, if proof is

wanted, we have only to quote from the statements of Lord Reading himself. In 1923, while certifying the Finance Bill with salt tax at Rs. 2-8-0, he observed,

> "Their (dangers of an unbalanced budget) immediate effect is to stifle the development in the provision of all those beneficent activities, education, public health, and industry, which should be the first fruits of the Reforms."

In 1924, Lord Reading, while accepting the Assembly's decision of having the salt tax at the old rate of Rs. 1-4-0, regretted that the higher rate of even Rs. 2, not to speak of Rs. 2-8-0, was not accepted and stated,

> "It (the rate of Rs. 2 salt tax) would enable a commencement to be made with the reduction of Provincial Contributions in four Provinces and would thereby secure increased provision for objects such as Education, Public Health and Industry, the furtherance of which is our anxious concern."

Will we be charged with undue facetiousness, if we say that the Englishman's piety is something delightfully apocryphal? It is to be hoped that it is only existent to the East of Suez and that it does not infect the Armistice

Day either here or there. The pious wish of Sir J. Meston was not carried out even in 1923 and the increase in salt tax made no change in the outlook; in 1924, Lord Reading promises to finance those projects of social welfare only if we consent to the increased salt tax. Meanwhile the increase of 1 crore under the Lee Commission report has become a reality. What became then of all the increased taxes since 1920 and was any portion of the receipts from these increased taxes diverted to these channels about which Lord Reading has grown so enthusiastic? Or, did any tithe of these 100 crores deficits occur as a result of expenditure on the amelioration of the condition of the masses? Most of this large sum has been poured into the bottomless pit of Waziristan and, not merely that, it is done to civilize these savage peoples! Lord Reading, taking the cue from that super road-mender, Lord Montagu of Beaulieu, said with regard to the vast expenditure on the construction of the roads in the Frontier,

> "They are beginning to exercise the civilizing and pacific influences which are the special and beneficent characteristics of a road policy."

I have always had a shrewd suspicion that

our Viceroy, Lord Reading is not a man of wide culture or a widely read man. Else, he would not have adopted the above view. Norman Angell, in his classical book, blames England for having given that sort of peace by which this C3 or D4 nation of Indians has increased enormously during the last 100 years, from 200 millions to 300 millions. I do not know whether sometimes I do not agree with him. While such is the case, here is Lord Reading wasting away India's good money on providing civilizing influences to those border tribes, so that they may multiply and be a source of still greater trouble with increased numbers, and infest everywhere as the pest of Pathans, instead of allowing them to work out their own salvation or of adopting only defensive and punitive measures. This apart, look at the incongruity —or the monstrosity—of it, that while progress in Education, Health and Industries is suspended in the realms of future realisation, or, is still waiting in the ante-chamber of our Simla gods for their benignant favour to shed upon them, crores of rupees on roads, transports, etc., in Waziristan are being expended rather freely.

Now, let us examine why and how the deficits arose and whether they could have been avoided and also note some salient features.

1918-19. In this year, if there had not been the second war contribution of £12·7 millions there would have been a surplus of about 13 crores.

1919-20. This is the first post-war year; but still India had to wage the Afghan War which has served as an excuse for continuing the expenditure in the Frontier. And this war seems to have been conducted on an extravagant scale, for no less a man than Sir Dinshaw Wacha said,

> "It has astonished me that this little war of six months should have cost as much as £14¾ millions. It is an appalling sum; I cannot understand; there must be some leakage somewhere, some great wastage of expenditure which cannot be accounted for. There is no mistake about this waste."

He also pointed out that the previous three Afghan Wars cost only £15 millions. But for this War, there would have been no deficit. The Military expenditure for 1918-19 and 1919-20 was 66·72 crores and 86·98 crores respectively including the war contribution and the cost of the Afghan War of these years. Such a large excess expenditure should have been debited to loan funds and not to revenue

programme. Besides, it should be noticed that in these two years, the revenue of 130 and 137 crores included exchange gains and without these, the deficits would have been more.

1920-21. It is a wonder how the Government of India came to incur such losses on Reverse Councils when in 1919-20 there was a deficit of 24 crores and when the Afghan War not only cost the country a huge sum but left in its trail the very costly policy of subjugating the frontier tribes and when the monsoon was a failure. The result was the abnormally heavy expenditure of 162 crores. The deficit would have been more if in the Revenue of 136 crores, there had not been some little exchange gains. Mr. Hailey promised us 30 crores of gains and instead he left us the Reverse Councils losses as a settled fact. In addition, the Waziristan and Frontier adventures cost the country 21¼ crores or as much as the Afghan War itself. It is clear that the stinging rebuke of Sir Dinshaw Wacha is well deserved in this case and that there has been "considerable leakage" — perhaps Sir Dinshaw forgot that that was an epoch of leakages, munitions, Waziristan, Reverse Councils, stores like in Chaklala etc, etc. The country is not generally aware that this minor

Waziristan fray cost the country as much as a big war. This chapter is not yet closed. Instead of or in addition to regular warfare, expenditure has taken the shape of roads policy, transports, Khyber Railway (this costing Rs. 250 lakhs for a line of 24 miles, about 10 lakhs per mile and 10 times the usual cost), and all the surplus revenues and additional taxation have been mortgaged therefor.

The total military expenditure was 87 crores. Mr. Hailey budgetted for 57 crores on Army and stated that every feasible economy has been effected and that that was the least sum that could be placed in the Budget. But the actuals were more by 30 crores. Oh! for the shade of Gokhale! he was always protesting against such variations between Budget Estimates, Revised Estimates and Actuals even in normal times.

In this year, there have been two sleight-of-hands. In the Budget and Revised statements, £ 5·37 millions were entered under Receipts as being due to India by England as a contribution towards the Pensions of Indian troops engaged in the Great War. But in the Budget statement of 1921-22 we are told that the non-recovery of the sum was due to the fact

that the matter was pending discussion. In the actuals, this sum has been quietly dropped out; and instead, we are asked to pay £ 40 millions. This is of course in consonance with the other freaks of the financial regime then.

The second is, in the later years, Mr. Hailey said that the increase in the Treasury Bills in the Paper Currency Reserve or mere I.O.U.'s by 31 crores was due to the deficit caused by the Afghan War. If so, these I.O.U.'s should have been issued before 1920. But, as a matter of fact, the Treasury Bills in the Reserve were 3·80 crores in January 1919, 7·40 crores in 31st December 1919 and came down to 5·89 crores in 22nd March 1920. Here is a piece of terminological inexactitude. For, Mr. Hailey himself said in March 1920,

> "Lord Meston entertained the hope of being able during the course of 1919–20, to reduce our treasury bill outstandings by about Rs. 22 crores. These hopes were defeated by the large outgoings due to the Afghan war and frontier operations which had to be financed mainly by fresh sales of bills."

The increase in the Treasury Bills of the Paper Currency Reserve from 5·89 crores in March 1920 to 61·26 crores in October 1920,

was really issued to cover the losses arising from Reverse Councils and from the revaluation of sterling securities, and as stated before, instead of solid sterling assets, we had mere I. O. U's in the reserve. Here another contradiction may be mentioned. He said in 1920,

> "Anything approaching 50 crores of treasury bill outstandings, to say nothing of the 68 crores reached in October last, is a dangerous amount of floating debt for India to carry."

He showed such concern about the danger of floating debt, but he increased it from 50 crores to 100 crores in December 1920.

1921–22. From this year, is felt the full effect of the blast of 1920. As described formerly there were losses under interest receipts and exchange, less income and less revenue, but there was greater expenditure in the way of increased Home charges, increase in interest payments both in India and in England. Because there was the impending deficit of 26 crores in 1920–21, additional taxes were imposed. In spite of it, the total revenue was only 115 crores. In 1920–21, the revenue was 135½ crores due to exchange gains and to the great increase in customs, income-tax, as a result of the boom. That, in spite of all the additional

taxation the revenue had shrunk to 115 crores, shows the deplorable state of the country's productive capacity and earning power. The deficit would have been less if they had not used the Paper Currency and Gold Standard Reserve interests to cancel the created securities. This is a case of pretended purism at the cost of India. The Military expenditure was 77·87 crores of which Waziristan cost about 12 crores. It means that by hook or by crook, the Military expenditure is sought to be maintained at a high level. In this year there was a loss of 9 crores on the Railways due to high working expenses and to the enormous purchase of high priced foreign coal—another form of subsidy or plunder. Leave alone this. All this has afforded an excuse for raising rates and fares to a very high level; and no effort has been made to reduce the working expenses, which are now sought to be maintained at the 1921–22 level.

1922–23. In spite of still further taxation, the revenue was only 121 crores and the deficit 15 crores. It means that the wealth of the country was decreasing, instead of increasing. The Military expenditure was 71 crores; and Waziristan's share was 10 crores. This year was

memorable for the coming in of the Inchcape committee. The effect of its labours may be felt as regards Military expenditure, but the Railways are beginning to be a law unto themselves. Though the railway receipts increased by 12 crores, working expenses were kept up at the high level of 1921–22 just as Waziristan came in to keep up the high level of 1919–20, due to Afghan war.

1923–24. This year was noteworthy for the doubling of the salt tax by sheer executive order in defiance of public opinion and in spite of the labours of the Inchcape committee. No doubt, the interests of Paper Currency and Gold Standard Reserves were used for revenue purposes. Still without having recourse to salt tax, they could have shown a surplus if the recommendations of the Inchcape committee had been carried out in a spirit of true penitence and if more of the Army waste in transport, Waziristan, etc had been put an end to. But what they did in the revised estimate, they could have done in the beginning of the year. That is, the utilisation of the windfall of the sale of enemy ships. Here, all the credit must go to Mr. Narottam Morarjee and Mr. B. F. Madan. If the former had not referred to it in

his speech as chairman of the Scindia Steam Navigation company in 1923, would they have utilised it for revenue purposes? Or, would it have met the fate of our sterling securities and of the £5·37 millions first proposed as being due to India? Sir Basil Blackett said the fruit was already in the tree. Perhaps, if on account of their composedly sound sleep, it had been stolen away, would they have tried to re-establish a claim to it and to recover it? The country must really be thankful to Mr. Narottam Morarji and to Mr. B. F. Madan for having saved this sum from the Dragons at London. If Sir Basil had been aware of it, why did he not seek to utilise it in the beginning of the year? After all, why was there such a delay in using it for revenue purposes, when England had used £ 800 millions of war disposals income, to revenue purposes from 1919. Even now, it is being dealt with in a graceless manner, only a moiety is used up; the rest is said to await the result of the Privy Council decision on the customs duty paid on Railway materials. After all, of the 2 crores reserved, will not almost the whole come back as the companies would be entitled to that fraction which the surplus profits bear to the gross earnings minus working

expenses? This year the military expenditure was 64 crores. The Revised Estimate for Railways shows a net income of 6¼ crores as against that of 1·5 crores in 1922–23 and the loss of 9 crores in 1921–22.

One other action by the Government deserves to be strongly condemned. That is, the reduction of the export duty on hides and skins from 15 per cent to 5 per cent. Was this the time to forego an income of half a crore of Rupees? On the other hand, instead of salt tax, they should have not only kept on this duty and utilised the windfall of the enemy ships, but they could have raised their revenue by an increase in the export duty on tea, and jute and by levying, no doubt for the first time, an export duty on oil seeds, manure, etc. Sir Charles Innes showed great solicitude towards the export trade for hides and skins and said that the 15% duty was hampering the export trade. On the other hand, the Trade Review of 1922–23 states that as soon as the duty was decreased, the prices of hides and skins stiffened up correspondingly. What is lost by the public exchequer has been gained by the middlemen and the exporters—a considerable number of whom are foreigners like Americans. This

foreign ring controlling the hides and skins in Upper India and Calcutta is being benefitted to this extent. So much for our officials' foresight and perspicacity.

1924–25. This year also is noteworthy for the reduction of salt tax to the old rate of Rs. 1-4-0, for the proposals on the separation of Railway Finance from General Finance and the redemption of debt, and for the long list of outstanding claims between England and India. The first decision must be unalterable and there should be no more occasion to modify it. To render this position more effective, in addition to retrenchment, the interest on Paper Currency and Gold Standard Reserves should be used for revenue purposes only. The obligation to use the interest for cancelling the I. O. U's in the reserve must be treated as a dead letter as it was stipulated for in a moment of ignorance and panic.

As for the separation of Railway Finance, and quoting from Mr. Hailey's Budget speech of 1921, the net profit to the state from Railways before the war was 7·29 crores, 11·22 crores in 1916–17, 14·87 crores in 1917–18, 15·85 crores in 1919–20, 5½ crores in 1920–21. In 1921–22, the working expenses suddenly increased by 11 crores from 54 to 65 crores.

Hence the loss and the increase in rates and fares. Both are sought to be maintained at a high level, the working expenses and the rates and fares. And the state is to be given the sum of about 6 crores. It is wonderful how one aspect has been ignored by our leaders. This sum includes the capital portion of the annuities and sinking funds which was till now treated as part of the Railway expenditure. The real contribution to the state will therefore be only 4 crores and if we deduct the loss on strategic railways, it will be 3 crores. Is that an adequate return for a railway capital expenditure of 600 crores, not to speak of the 350 crores which India is said to have lost from her revenues to meet the Railway deficits according to Pandit Chandrik Prasad? Besides, is this sum of 3 crores commensurate with the great increase in rates and fares? The real contribution should be 10 crores including the capital portion of the annuities. Otherwise, the result would be that 12 crores by way of increases in rates and fares and 2 crores in the annuities and sinking funds now transferred to general funds or 14 crores have been presented to the newly created Railway over-lords to do anything as they please. This will be an inducement for high

working expenses and for an orgy of new posts and high salaries. Again, I repeat, is it honest to maintain the high rate of working expenses which was then due to high cost of fuel and heavy replacements and renewals.

In regard to the redemption of debt, it is unexceptionable in principle. Only, we must ask whether it is a reply to the repudiation of debts resolution. If the country is not to feel sore on this point of the huge accumulation of debt, especially the sterling debt of the last few years, the first step should be towards funding all the sterling debt at the low interest of 3%. What concessions England got from America, she must extend to India; especially, as every penny of the sterling debt from 1920 is thoroughly unjust. This portion of the sterling debt is like the fictitious debt with which a not over-scrupulous trustee would encumber the estates of his ward, he himself posing as the chief creditor. France expects not only a low interest but is bargaining for a reduction in the principal. England has proposed a scheme for the cancellation of debts. Would she show a fraction of this magnanimity towards India? Let us wait and see.

The funding of this debt, if not partial can-

cellation, is the least that England can do to us. We need not even go to the length of Prof. K. T. Shah who has suggested that England should take the responsibility for the £100 millions contribution, considering the losses inflicted on India by the unreasoning obstinacy of her representatives in regard to Reverse Councils. If our mild proposal is not accepted, repudiation will be one of the unsatisfied longings of our heart.

Before concluding this section, we shall refer to one point. What would be the nature of Financial statements after 1920 if there had been no Reverse Councils? It would be an interesting task for such an able Statistician as Mr. Findlay Shirras to reconstruct the Budgets of India on this basis. There would have been less Home charges, less interest payments, and perhaps no deficits. But this does not mean that the additional taxes need not have been levied. With abounding prosperity, they could have been imposed, even including the salt tax at Rs. 2-8-0 and India would not have grudged them, if they had been spent on vast schemes for the social and economic progress of the country. As I have said already, India could then have even a £200 millions Budget if it had

been framed on the model of the great Georgian Budgets of 1908 to 1913. Up to now, England has spent about £500 millions on war pensions. Even the Conservative ministry of 1922-23 spent £81 millions on war pensions, £46 millions on Education, £22 millions on Old Age Pensions £10 millions on Public Health (this in addition to the vast expenditure by Local Bodies) and £9 millions on Housing. The Government themselves have stated that all the Afghan wars of the last 25 years cost them Rs. 35·27 crores. Now the present Frontier policy alone has cost about 50 crores! Let the Great Gods bear witness whether a good part of the suffering in India could not have been avoided with a moiety of this sum which is now wasted away on the barren souls and rocks in the Frontier.

Mr. W. H. Moreland, in his books, writes pityingly of the condition of India under the Mughals, especially of the way in which the revenues were spent. May we then ask him whether the Finances of India are now, in any way, better administered than in those medieval ages?

OTHER "ORGANISED PLUNDERS"

Their number is legion and they have their roots deep down into the very beginning of English history in India. And in those early periods they attained to such proportions that they became a matter for the greatest impeachment on record. But that the evil of "Organised plunders" has persisted all these centuries in various shapes and forms, is evident from the succession of speakers and writers on this subject. After Burke and Sheridan, this problem has become a fit theme for various writers, like Macaulay, Digby, Torrens, Hyndman etc. On the Indian side, such research and study have not been wanting. Some of our great men like R. C. Dutt, Ranade, Dadabhai Naoroji, Gokhale made it their life's mission to awaken England's conscience against continuing the economic codes of the XVII and XIII centuries. The latest to pursue this almost hopeless task are Dr. Besant by her book 'India, a Nation' and Mr. Lala Lajpat Rai who, in his monumental book 'Britain's Debt to India' has summarised all the questionable

dealings of England with India up to the time of the Great War. To write on the recent like achievements would require the pen of a Macaulay. It is a matter of very great regret that the spirit which animated Clive and Warren Hastings and the East India Company servants who defied the efforts of Mir Kasim—one of the very few patriots Islam has produced—to stop their exactions, seems to be quite alive even to-day and to have been religiously transmitted as it were, through these centuries.

Examine any transaction between India and England, whether of Military Expenditure, Railways, Stores or Fiscal policy like Excise duty, etc; at bottom, the idea seems to have been, by how much each one will benefit England financially.

Let us take the most recent instance of the demand of £ 44 millions as pensions contribution by India to England. On the face of it, it is the most outrageous demand on India. It is as if India were an enemy of Britain. What they failed to secure from Germany, they are now trying to extort from helpless India—helpless in more ways than one, helpless that the world at large will not condemn this sinister transaction just as it did with the demand on Germany.

Even judging it on its own merits, when the second war contribution of £ 13·5 millions was paid in 1919 and 1920, it was understood that it was in full settlement of all claims. Mr. Hailey himself then said,

> "This contribution £4 millions (included in those £ 13·5 millions) would be in full settlement of any claims which His Majesty's Government may have against India in respect of troops who fought in the war and had previous Indian service but had ceased to belong to Indian establishment before the war."

On the other hand, it was England that owed India £ 5 millions towards pensionary charges. Mr. Hailey, while putting forth this claim, said,

> "We shall of course not be liable to any payment on account of the extraordinary pensions of Indian troops and their British officers arising from the war, although as the pensions fall due, they will be paid from Indian revenues; what we shall do therefore is to recover from His Majesty's Government a lump sum representing the capitalised value of these pensions, and for the purpose of the present estimates, I am assuming that the recovery will be made in the current year, the amount involved being roughly £ 5 millions."

As already shown, it was this £ 5 millions that England repudiated or evaded payment of, and as a counter-claim, we are asked to pay £ 44 millions,—thus a net loss of £ 50 millions. What has then become of the solemn assurance that no claim exists against India, but on the other hand, that England owed India £5 millions? It looks then as if it would have been better if the great war had extended longer. We would have had to pay only the second war contribution of £ 40 or 45 millions only. Now the demand comes to about £ 63·5 millions. Besides, we would have had no Reverse Councils gamble costing hundreds of of crores, no Waziristan adventures costing about 50 crores. Add all these losses to the latest demand, and what a staggering sum India has had to meet.

On the other hand, it is we who have to present a long bill of damages against England as a result of the meddlings of the War office and India Office. I have the support of Mr. Lalubhai Samaldas, one of the mildest of men and from whom never a harsh word escaped in his council speeches. Even he was driven to say almost like this, 'Take back the Reforms, give us the conditions which would exist if Reverse

Councils had not been sold.' His Majesty, the King Emperor, in his Instructions to the Ministers of the Provinces, made an injunction that there should be absolute "probity in Finance". Does not this "probity in Finance" apply to the transactions of the Government of India, India office and War office? Can anybody say whether there was absolute "probity in Finance" in some of the transactions we referred to? Man-made blight has done enough havoc; and if the India Office and War Office still insist on such unconscionable demands, all we can say to these two is, 'Beware of the Blight of God."

Of the other claims against India announced in January 30, 1924, each one bears the true Shylockian impress. Expenditure on East Persia, surplus officers, disbandment of troops exchange concessions on Mesopotamia, Aden, all are said to be matters under dispute and under consideration. They will all come to another round sum £20 millions. Their £ 40 millions claim—it is some coincidence—is equal to the Gold Standard Reserve, which might go the way of our sterling securities. For the rest £ 20 or 30 millions, in all of which the War Office will have its own way, the sterling debt

will be increased to this extent. How the claims on surplus officers and gratuities and disbandment can arise is not clear when each Financial statement has got large allotments from 1919 onwards under these headings. When such post-war claims are discovered even to-day—pulled out as it were from the sockets of their sunken memory--and are heaped on India, may we ask what have been India's gains as a result of her participation in the great war? Some fellow of a Northcliffe—I use 'fellow' in the Pickwickian sense—called Indians as ungrateful. But who is really ungrateful is left for conscientious men to adjudge.

There is again the long-standing dispute on the capitation rate. The full details are given in the Inchcape Committee report. [I consider this report as nothing but an impeachment as great as Burke's. When I read this report, I thought some items as unavoidable, inevitable, or well-intentioned, and others seemed somewhat of a deliberate fleecing or plunder.] The capitation rate which was in 1908 £ 11-8-0 is now at £ 25. This matter is under consideration for the last 4 or 5 years, and they are apparently in no hurry to settle

it. The tragical part of it is, when some allowances are to be given to British officers, or some concessions of melancholy meanness, telegrams fly across space and the Government of India officials shiver in their knees till they carry out the orders from Home. As for the capitation rates, it will take years before decision is reached ; another Einsteinian conception of time. Meanwhile, India must pay through the nose. Here, it may be asked how much the armament makers and motor firms, benefitted by this policy in Waziristan.

The second important fleecing or bleeding instrument is Railways. The Currency Report of 1917-18 itself admitted that the surplus profits remitted by companies "exceeded the average of the past two years by 48 per cent" and that was due " to the increased traffic and general enhancement of rates." After 1918, there have been further increases in fares and rates and now their surplus profits are 100 per cent or 150 per cent of pre-war profits.

Surplus profits				[in lakhs of Rs.	
1913-14	66	1917-18	1,49	1921-22	1,06
1914-15	1,03	1918-19	1,89	1922-23	69
1915-16	90	1919-20	2,00	1923-24	1,11
1916-17	1,15	1920-21	1,72		

No wonder that companies like S. I. Ry.,

M. S. M. Ry. and others are paying dividends from 8 to 12 per cent. The rates and fares were increased for general revenue purposes and the companies have no right for these. More objectionable than this, is the permission given to private Railway companies to increase the rates and fares. The result is, Railways like Bengal and North Western, Southern Punjab, Barsi Light and others have increased their net earnings by 50 per cent and their dividends are ranging from 10 to 16 per cent. When we examine the contracts, we find the future loss still more frightening. These Railways are to be bought at 25 times their net earnings, which mean that we will have to pay 200 per cent to 400 per cent of their capital value. Our successive Secretaries of State have made such contracts profitable to India! Even with the main line companies, Mr. Pheroze Sethna pointed out one such contract; that is, with the G. I. P. Ry. where the capital is assumed to be 1½ times the really paid up capital. When it comes to Tanjore Board Railway, they want to buy it almost at cost price; this is perhaps, because the Tanjore Board has heen cheated of its due share of net earnings. Of all the Railways, the S. I. Ry. has done the

least for the comforts of 3rd class Passengers, charges the highest fare, and pays large dividends. Now when we hear of reduction of fares, it is only for 1st and 2nd class Passengers and reduction in rates perhaps for imports.

There are only two ways to meet this drain. One is to put into action the admission of Col. Waghorn, that the Indian Legislature can nullify all contracts and that no action can lie against anybody. The second is, Avoid using railways as much as possible. A sort of systematic abstention from using them except for urgent purposes; in other words, a modified boycott. Pandit Motilal Nehru humorously remarked when telegrams of protest rained on him when he started the Swarajist movement, "why add to the telegraph revenue." May I point out that the Congress people alone might have spent 75 lakhs out of their 1 crore, on Railways for their tours and committee meetings, not to speak of private expenses?

There is the allied subject of stores in which their greed shines in all resplendent glory. It is to be wondered whether the petty and huckstering spirit shown on this question in England has not created enough nausea in this country. They raise loans at a high interest in England,

spend the money there itself on buying stores at a dear rate. From 1919, Railway and Military stores have been bought in England on a lavish scale. Of the 150 crores of Railway capital expenditure, at least 100 crores may be spent on England. East Winterton assured his questioners only 3% of the stores purchase go out; even for that there is a deep grunt all over England.

The Port Trusts and Development Trusts seem to exist only to patronise English stores. The following is a glaring example, which appeared in London papers:—

> "The Government of Bombay Presidency has decided to spend £400,000 annually for fifteen years among British manufacturers, in connection with the Back Bay Development scheme—a total of £6,000,000."

Canadian sleepers and Natal coal are encouraged by some treacherous officialdom. I am for Imperial Preference and I would have all our goods bought in England if in other respects they don't behave in a mean manner.

Take this eternal question of Increase of Salaries which one is so tired of hearing that it has become a vexation. Sir William Vincent assured us in 1921-22 that no further revision of salaries were under contemplation and also

furnished a comparative table showing increases of salaries after 1914. I read in a paper that even for the present rates of pay of the I.C.S., the Services in the Colonies are looking on with hungering eyes. Even the proposed increases of pay according to the Lee Commission we would not grudge, if this so-called efficient service had not badly let us down these few years. Do they want a reward for producing a Hailey, a Cook, a Craddock and a Michael O'Dwyer. Or, take other instances. Sir Louis Kershaw whom Sir Frank Carter called a fellow, is said to be against the claim of Indians in Kenya. Mr. Chadwick, as Trade Commissioner, wrote a report which contained as exhaustive a list of his duties as that which H. G. Wells' Mr. Polly outlined for himself. Compare Mr. Chadwick's report with any of Mr. Ainscough's. One Mr. Leftwich—a name as bad as Peggotty—was sent to East Africa as Indian Trade Commissioner. It was reported he joined the anti-Indian agitation. Sir Charles Innes who helped to smother or kill District Board Railways is now the Railway chief. Mr. Denis Bray, when asked why Aden charges have increased from 20 lakhs to 70 lakhs, replies, "this increase is in the natural order of things." Such a Treasury

Bench mentality, will they allow in England? Besides, when the I.C.S. is called an expert and able body of officials, why is it then, they always depend on England for experts to serve on Committees and as special officers, or, are they not ashamed at some of their acts?

Just a passing reference might be made on the Proportionate Pensions scheme of retirement. Some cases are not genuine. I heard of a case where an English official—whether I.C.S., Police, or D.P.W. I don't remember—applied for retirement, only because he felt he was suppressed by his white superiors. When an Indian friend of his asked him why he retired, that official told the former, 'why man, these white niggers have black-balled and black-marked me and I have absolutely no chance of rising to the topmost grade. If I retire now, I get the pension of the higher grade.' This is stranger than fiction in this land of toiling martyrs.

While on Services, I might just say a word about Lord Reading whom such a Service as painted above, has forced, to lose all individuality. He is a man thoroughly bereft of ideas and there is nothing original about his speeches. His Liberalism has become choked up. His

regime will be noted for interviews and and telegrams. I wonder whether the Old Father Jehovah is so busy interviewing his Angels and Archangels or sending missiles across space as our Viceroy, in granting interviews and sending telegrams. This thoroughly inefficient but haughty I.C.S. has managed to undo a Liberal politician.

One could write a whole volume on this subject and I might do so if I find any encouragement. There remain innumerable items to be explored. And Boycott of goods is the only remedy; but some our people are ready to swallow the camel of repudiation of debt, but strain at the gnat of Boycott.

Before concluding, let me compare England with India on an allied matter (i.e.,) gains and losses. England has increased her wealth of £17,000 millions in 1914 to £22,000 millions in 1919 and now is worth £26,000 millions. How much India was and is worth, we do not know and they refuse to find out. But what little wealth she gained during the war, has been filched away from her. Of the 17,000 millions in 1914, up to £4,000 millions was estimated to have been the contribution of India. Of the £4,000 millions increase from 1919 to 1924 of

English wealth, at least £1,000 millions is due to India. Still, that black-hearted, venemous Sydenham is foaming at the mouth.

In territorial gains, a paper wrote,

"The major share of the loot was secured by Britain and France. The British National and Imperial loot was in part, as follows,

National Share.		Imperial Share.	
G. E Africa	1,028,190 Sq. M.	G. S. W. Africa	322,450 Sq.M.
G. W. Africa	323,000	G. New Guinea	33,700
Mesopotamia	143,000	G. Samoa	1,000
Palestine	100,000	Other Islands	1,003

Their potential value runs into many thousands of millions sterling."

Poor Mr. Gokhale, he fondly hoped that G. E. Africa would come to India as an outlet for her teeming millions. Instead, ingratitude thy name is—,India is being bundled out of S. and E. Africa and of Canada. Poor Bhai Gurdit Singh, as great a hero as Sir Francis Drake, is meeting the fate which Sir Francis would have undergone if he had been caught by Philip, King of Spain—and how really glad we are even with Froude that this grand hero eluded all attempts at capture!

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